C1850-4
11/23/87

# Industrial Distribution

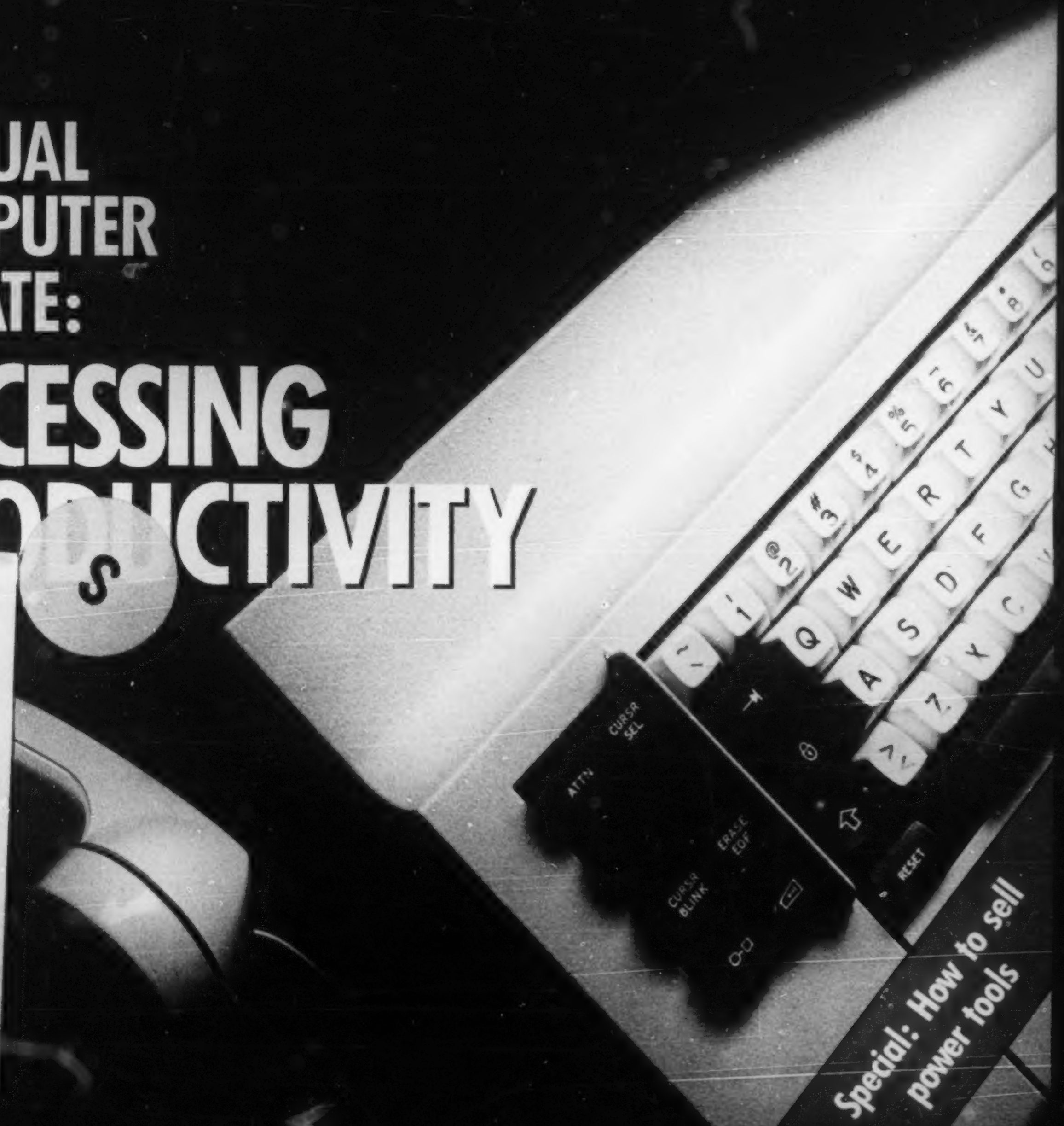
A CAHNERS PUBLICATION

November 1987

Hotline:
Rising inventories
may reduce
profitability

## ANNUAL COMPUTER UPDATE:

# ACCESSING PRODUCTIVITY



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# Industrial Distribution®

Vol. 76, No. 11/76th yr. A CAHNERS PUBLICATION November 1987

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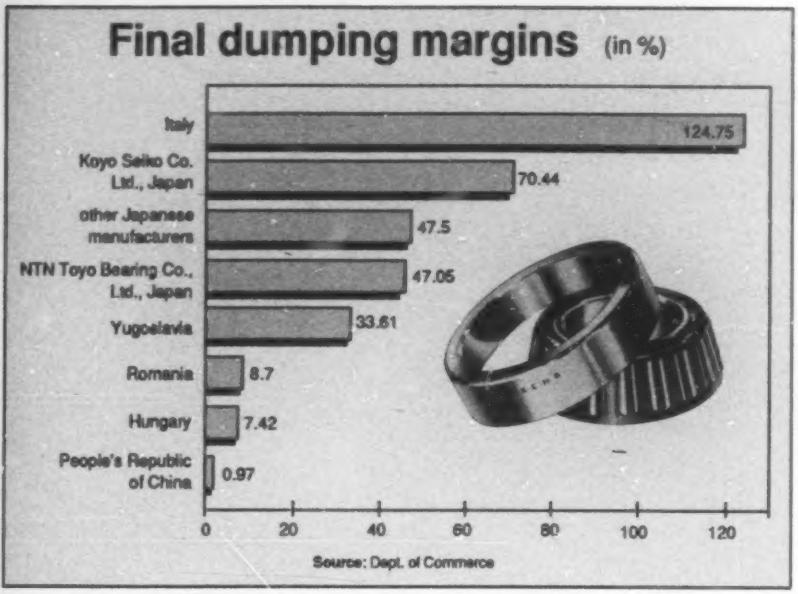
# INDUSTRY NEWS

## ITC rules Japan dumped tapered roller bearings



Source: Dept. of Commerce

**Final dumping margins have been set** by the Dept. of Commerce (DOC) in the Timken anti-dumping case. The numbers are the DOC's estimate of the average amount by which tapered roller bearings sold at less than fair value.

WASHINGTON, DC—The International Trade Commission (ITC) ruled 5 to 0 on Sept. 15 that Japanese manufacturers damaged American industry by dumping imports of tapered roller bearings on the U.S. market.

The ruling means Japanese manufacturers must deposit dumping duties on all current and future imports of tapered roller bearings.

The ITC decision was the final leg of a 16-month anti-dumping suit filed by the Timken Co., Canton, OH. Earlier this year, the Federal government ruled against Hungary, Romania, Yugoslavia, the People's Republic of China, and Italy.

Scott Scherf, a Timken Co. spokesman, said Timken pursued the lawsuit because it had been losing market share to foreign competition since the 1982 recession.

"We filed the suit because we decided that the company could not go on in this unfair trading environment," Scherf said. "Most of our slight profit last year was due to accounting changes, as opposed to increased market share."

George LaMore, president of Bearings, Inc., Cleveland, OH, a distributor of tapered roller bearings, said the decision should eliminate some price discrepancies in the field.

LaMore said between the ITC ruling and the industry's Section 232 petition, which asks the Federal government to impose quotas on imports, the industry may be able to make some progress against foreign competition.☐

## Congress reviewing tax on out-of-state sales

WASHINGTON, DC—The House Ways and Means Committee is reviewing a bill that would require mail order merchandisers to collect sales taxes from their out-of-state customers.

The bill, which is aimed at retailers but impacts industrial distributors, would overturn a 1967 Supreme Court ruling that prevents states from collecting sales taxes from out-of-state businesses.

The court said an out-of-state seller is not required to collect taxes unless it has a business presence in the state. It ruled that merely sending catalogs or delivering products into a state is not enough to establish such a presence.

Robert G. Clifton, executive vice president of the National Industrial Distributors Assn., said the bill, if passed, would have a significant impact on distributors, many of whom sell through catalogs. He noted that distributors would be burdened by the additional paperwork generated by collecting sales taxes.

Rep. Byron Dorgan (D-ND), the bill's sponsor, said state governments lost nearly $2 billion in 1986 because mail order merchandisers did not collect state sales taxes. He said the losses range from a high of $318 million a year in California to a low of $2.4 million a year in Wyoming.

The bill impacts 45 states and the District of Columbia. The only states without sales taxes are Alaska, Delaware, Montana, New Hampshire, and Oregon.

Robert Lovering, a spokesman for the Direct Marketing Assn., Washington, DC, said the tax is inefficient. He said the cost of collecting sales tax by mail is six times greater than through the cash register. He also said that the increased cost of the sales tax could negatively impact the profit margins of most direct mailers by about 25%.

Shirley Zebroski, a spokeswoman for Congressman Dorgan, explained that the impetus for the bill is twofold. First, since Federal gov-

# INDUSTRY NEWS...

at Texas A&M, will speak on business communications.

Other program speakers include takeover expert Stan Sanderson, Jr., whose subject is placing value on a business, and Ted Cohn, author of *Compensating Key Executives in the Smaller Company*.

For more information, call STAFDA at (414) 784-4774.☐

## Samek to highlight Central States convention

CHICAGO, IL—Industry consultant Steven M. Samek will be the featured speaker at the 55th Annual Central States Industrial Distributors Assn. convention, which runs from Nov. 22-23 at Chicago's

*[continued on page 21]*

## Indicators

The *NIDA/SIDA Industrial Distribution Index*, which follows the sales of industrial maintenance, repair and operating equipment, experienced a slight increase in August, rising to 151.5. Two of the four reporting geographic regions sustained increases, one declined and the other held steady; the East was down 1.9 to 140.2, the Midwest was up 2.9 to 126.9, the West was up 5.7 to 187.2, and the South was unchanged at 189.6. Overall, the August 1987 number of 151.5 was up 3.2 points from August 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.5 for August, up 0.2 points, or 0.1%, from the previous month and up 1.5 points, or 0.9%, from August 1986 . . . *SIDA's Monthly Sales Trend Report* for July showed mixed results. The 89 reporting locations showed a 3.2% decrease in sales from July 1987 as compared with June 1987, but a 4.4% sales increase from July 1987 as compared with July 1986, and a 3.2% sales increase for the first 7 months of 1987 as compared with the first 7 months of 1986. In addition, 30 locations reported increases in sales from July 1987 as compared with June 1987, 52 locations reported increased sales from July 1987 as compared with July 1986, and 46 locations experienced sales increases for the first 7 months of 1987 as compared with the first 7 months of 1986 . . . *The ASMMA Two-Month Moving Average Index of New Orders, seasonally adjusted*, at 124.6 for July, was 1.7 points lower than in June 1987 . . . *The Federal Reserve Board's Durable Manufacturers Index, seasonally adjusted*, which tracks the performance of the industrial production of durable goods, was up 2.4 points in July to 132.0.☐

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## BUSINESS STAFF

### Executive Offices

**BOSTON**
275 Washington Street
Newton, MA 02158 (617) 964-3030

**Thomas A. Pilkington,** publisher/v.p.

**John R. Kovacs,** national sales manager

**Susan Lawler,** administrative assistant

**Wendy Casella,** advertising/sales coordinator

**Anne Bennett,** sales promotion manager

**Bruce Lorge,** production manager

**Maria T. Vinciguerra,** production services

### Circulation Office

**DENVER**
Kelly Albright, circulation manager
270 St. Paul Street
Denver, CO 80206 (303) 388-4511

### Sales Offices

**NEW ENGLAND**
Pete O'Neill
199 Wells Avenue
Newton, MA 02159 (617) 964-3730

**NEW JERSEY/MID-ATLANTIC/SOUTH ATLANTIC**
Edward C. Neely
103 Eisenhower Parkway
Roseland, NJ 07068 (201) 228-8600

**MIDWEST**
Richard W. Daniels
Cahners Plaza
1350 E. Touhy Avenue, P.O. Box 5080
Des Plaines, IL 60018 (312) 390-2991

Richard E. Helfrick
1621 Euclid Avenue, Suite 1530
Cleveland, OH 44115 (216) 696-1800

George D. Whyte
Cahners Plaza
1350 E. Touhy Avenue, P.O. Box 5080
Des Plaines, IL 60018 (312) 390-2990

**SOUTHWEST**
Hal Mott
9330 LBJ Freeway, Suite 1060
Dallas, TX 75243
(214) 644-3683

**WEST COAST**
James J. Barrett
Cahners Sherman Building
3031 Tisch Way, Suite 1000
San Jose, CA 95128 (408) 243-8838

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# Industrial Distribution

A CAHNERS PUBLICATION

December 1987

Hotline: Canadian markets open for distributors

## COMMUNICATING FOR PROFIT

# ID Industrial Distribution®

Vol. 76, No. 12/76th yr. A CAHNERS PUBLICATION December 1987

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# INDUSTRY NEWS...

dustry leaders such as IBM, Xerox, Kodak, and AT&T.

The SIDA convention runs from Jan. 23-25 at Dallas' Lowes Anatole Hotel. ☐

## John Kovacs named ID's new national sales manager

NEWTON, MA—John R. Kovacs was appointed national sales manager of INDUSTRIAL DISTRIBUTION, effective Oct. 5.

Kovacs, 46, brings 23 years of publishing experience to ***ID***. Prior to joining the magazine, Kovacs was national sales manager for *Instruments and Control Systems* magazine and *Instruments and Apparatus News*, both published by Chilton Co., Radnor, PA.

Before his stint with Chilton, Kovacs worked at Technical Publishing for 11 years, 6 of them with *Plant Engineering* magazine. Prior to that he had a long affiliation with McGraw-Hill.

"With the upcoming redesign of the magazine, this is a very exciting time to be with INDUSTRIAL DISTRIBUTION," Kovacs said. "I plan to provide the leadership that will generate increased advertising revenues and expanded editorial coverage."

Kovacs is a graduate of Notre Dame University, South Bend, IN, and also holds a Masters in Business Administration from Loyola University, Chicago, IL. He will be relocating to Boston with his wife Lynne in the near future. The Kovacs' have two sons, Andrew, 23, and David, 19. ☐

**ID's new sales manager—** John Kovacs is ready to take the magazine into the future.

## Coilhose to open West Coast facility

MIDDLESEX, NJ—Coilhose Pneumatics, a manufacturer of air line accessories, is opening a plant early next month in Anaheim, CA.

A Coilhose spokesperson said the new facility will be run by William Amneus, Jr., who was appointed the plant's general manager. Amneus has broad experience in the industry, having served for more than 20 years at Amflo Products in Santa Ana, CA.

According to Coilhose, the Anaheim plant will enable the company to better serve its West Coast customers. Coilhose plans to market through industrial distributors. ☐

## Faultess offers distributors market research program

EVANSVILLE, IN—Faultless Caster Corp., a producer of industrial casters and wheels, has broken new ground for manufacturers by offering its 350 distributors a co-op market research program.

According to Sal Aliotta, a spokesman for Faultless, the company's Market Potential System (MPS) represents one of the first times a manufacturer has actively supported a distributor's marketing efforts.

MPS provides sales potential data for casters by state, county and Standard Industrial Classification (SIC) codes and, within these groupings, identifies consumption levels for up to 3000 individual companies. The fee for each report is $720, of which Faultless pays half.

Aliotta said Faultess first learned of the MPS concept through the NIDA/SIDA sales and marketing committee. He explained that early versions of the system classified casters in the broad category of materials handling.

## INDICATORS . . .

The *NIDA/SIDA Industrial Distribution Index*, which follows the sales of industrial maintenance, repair and operating equipment, dropped 4.2 points in September, falling to 147.3. All of the reporting geographic regions sustained declines; the East was down 2.5 to 137.7, the Midwest was down 2.1 to 124.8, the West was down 10.6 to 176.6, and the South was down 5.8 to 183.8. Overall the September 1987 number of 147.3 was up 1.6 from September 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.9 for September, up 0.4 points, or 1%, from the previous month and up 1.8 points, or 1.1%, from September 1986 . . . *SIDA's Monthly Sales Trend Report* for August showed mixed results. While the 116 reporting locations showed a 0.3% decrease in sales for August 1987 as compared with July 1987, the companies participating in the survey also experienced a 10.3% sales increase from August 1987 as compared with August 1986 and a 3.6% increase for the first 8 months of 1987 as compared with the first 8 months of 1986. In addition, 55 locations reported increased sales in August 1987 as compared with July 1987, 69 locations experienced increased sales in August 1987 as compared with August 1986, and 50 locations experienced increased sales for the first 8 months of 1987 as compared with the first 8 months of 1986 . . . *The ASMAA Two-Month Moving Average Index of New Orders, seasonally adjusted*, at 128.0 in August, was 3.4 points higher than in July 1987 . . . *The Federal Reserve Board's Durable Manufacturers Index, seasonally adusted*, which tracks the performance of the industrial production of durable goods, was up 0.7 points in August to 132.7. ☐

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**NEW ENGLAND**
Pete O'Neill
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Newton, MA 02159 (617) 964-3730
**NEW JERSEY/MID-ATLANTIC/SOUTH ATLANTIC**
Edward C. Neely
103 Eisenhower Parkway
Roseland, NJ 07068 (201) 228-8600
**MIDWEST**
Richard W. Daniels
Cahners Plaza
1350 E. Touhy Avenue, P.O. Box 5080
Des Plaines, IL 60018 (312) 390-2991
Richard E. H[illegible]lfrick
1621 Euclid Avenue, Suite 1530
Cleveland, OH 44115 (216) 696-1800
George [illegible] Whyte
Cahners Plaza
1350 E. Touhy Avenue, P.O. Box 5080
Des Plaines, IL 60018 (312) 390-2990
**SOUTHWEST**
Hal Mott
9330 LBJ Freeway, Suite 1060
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**WEST COAST**
James J. Barrett
Cahners Sherman Building
3031 Tisch Way, Suite 1000
San Jose, CA 95128 (408) 243-8838

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JANUARY 1988

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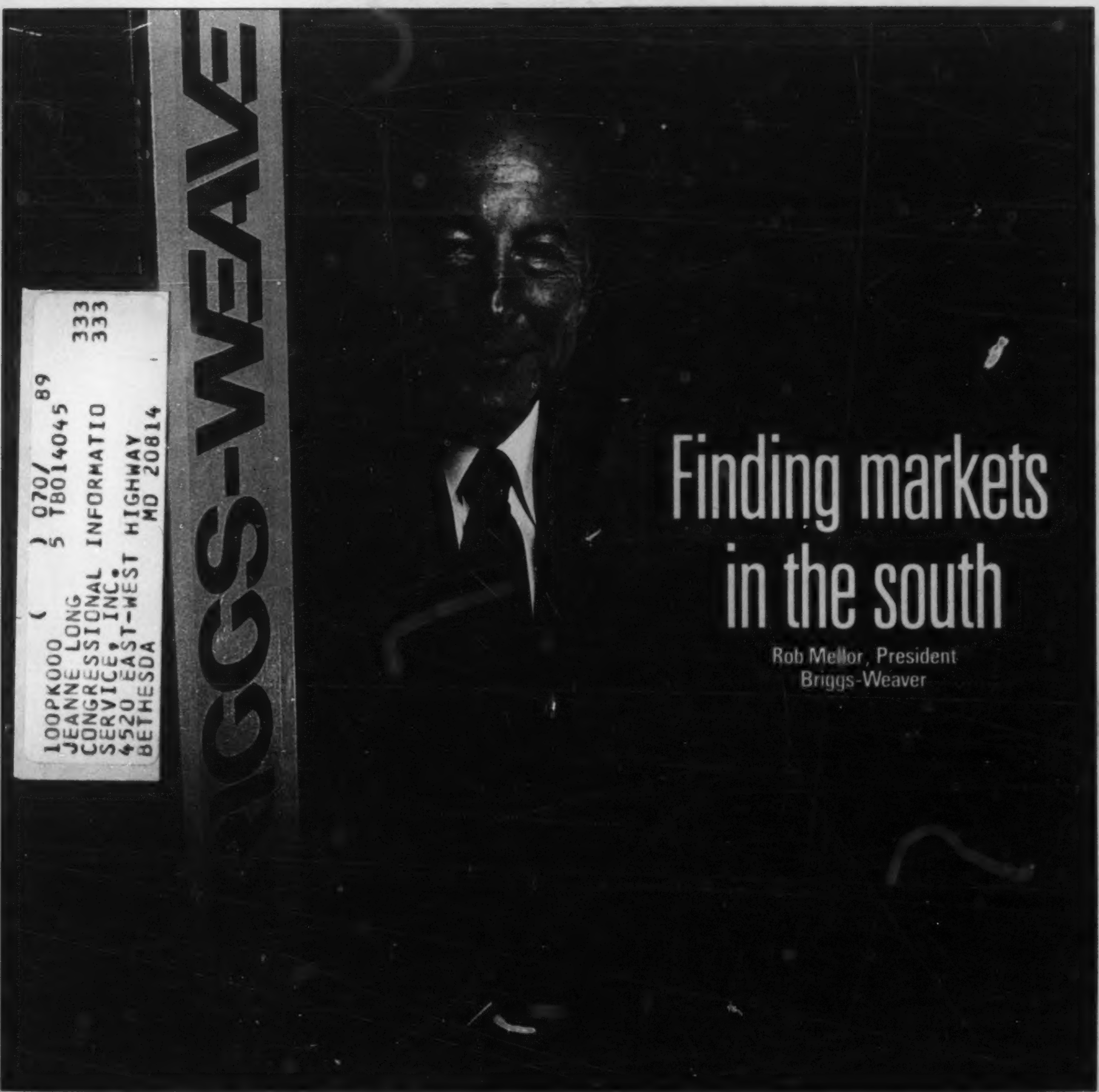
# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

## Successful fluid power strategies



## Finding markets in the south

Rob Mellor, President
Briggs-Weaver

100PK000 ( ) 070/ 89 333
JEANNE LONG 5 TB014045 333
CONGRESSIONAL INFORMATIO
SERVICE, INC.
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

**Industrial Distribution**
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 1 JANUARY, 1988 A CAHNERS PUBLICATION

Rob C. Mellor, president of Briggs-Weaver, describes how his company has succeeded in the tough Southern markets.

COVER STORY—SELLING

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Many markets exist for the astute Southern distributor.

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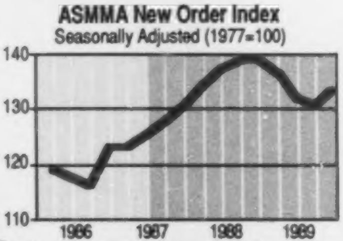

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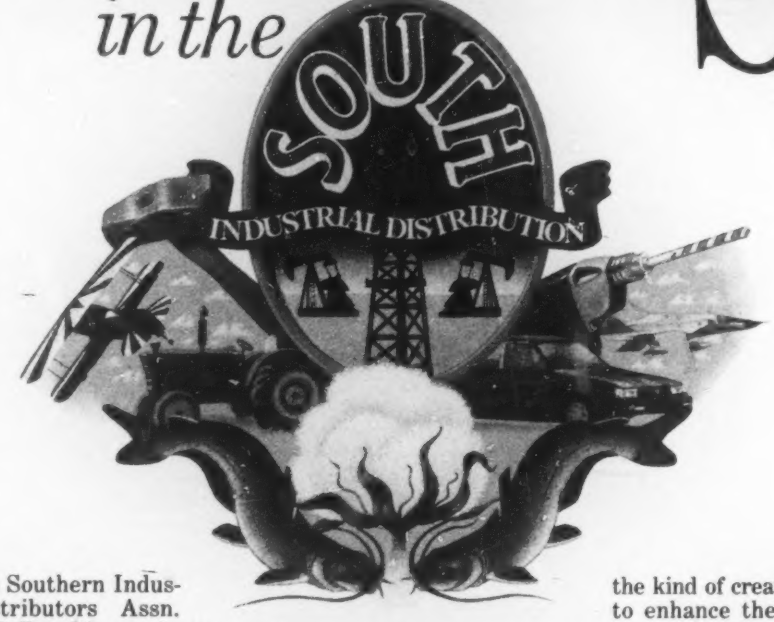
# FINDING MARKETS in the SOUTH



*Nationwide, savvy distributors find business in the shadows of traditional markets, and in the oil-dependent South, entrepreneurs are turning adversity into opportunity.*

**By John G.F. Bonnanzio**
**Associate Editor**

When the Southern Industrial Distributors Assn. meets in Dallas this month, discussions are likely to center around a 5-year decline in oil markets and increased competition. Tales of the cross-town rival closing shop may also be exchanged, though there will be little joy in recreating such battles.

Underlying these tempered emotions is an understanding of why the competition has fallen. The pervasive attitude is not one of victory but, rather, trepidation. After all, industrial distributors do not create business, they serve it. And if the local metal stamping shop can't compete with foreign manufacturers, there's little reason for a distributor to believe that finding a new customer is as close as a well-directed phone call.

In the first part of this report, ID analyzed the economic development packages of all 15 southern states and conducted interviews with industry analysts, economists, association leaders, and those who understand the dynamics of business best, industrial distributors.

The purpose of this effort is to encourage the distributor to look for niche markets in traditional industries, as well as locating business that might otherwise be overlooked. In oil belt states, distributors have had to scramble to maintain revenues, and their shared experiences serve as a valuable lesson to others, regardless of geography.

It is hoped that the collective observations provided will help ignite the kind of creative thinking needed to enhance the distributor's business. Successful Southern distributors (indeed those in every region of the U.S.) have left no stone unturned in their zeal to find new markets. We have tried to do the same.

### TEXTILES: FOR SOME, A SUCCESS

*The good news is that American textile manufacturers have invested heavily in new machinery, and domestic market share is being won back from the Far East. The bad news is an old, familiar story. Modern equipment means fewer breakdowns, employees and mills.*

"We're very optimistic about the outlook for the textiles and apparel industry," says John Pickler, director of research for Wheat First Securities. Highly regarded for its expertise in textiles and southern markets, the Virginia-based investment bank cites two reasons for strength in textile mills, which are running at near capacity.

First, the decline in the dollar overseas has made U.S. products more competitive. Second, foreign manufacturers cannot respond quick-

## VIRGINIA

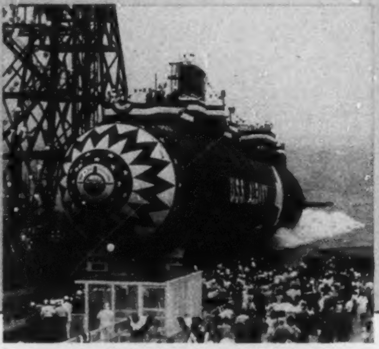
### Strong, stable and diverse

If Virginia were a business (which some say it is), it could be considered the smartest run conglomerate in the nation. After all, anything that a state could offer its people, Virginia seems capable of providing.

*Manufacturing:* Some 5,500 businesses employ 427,300 people —far and away the largest share of the state's workforce. Virginia's residents are also among the highest paid and best educated in the South. Unemployment was only 5.1% in 1986, and Virginia's ability to attract and keep such high-technology behemoths as IBM, ITT, GE, GTE, and Comsat is, in large measure, responsible.

Virginia is also home to traditional heavy manufacturing and most companies are doing well. The Newport News Shipbuilding yard is the only U.S. facility large enough to build nuclear aircraft carriers (one is under construction, and two are under contract). Additionally, Goodyear operates the world's largest radial truck and aircraft tire plant in the state.

In fact, since 1950, Virginia has surpassed the nation in manufacturing growth. Gains in electric and electronic equipment, transportation equipment, printing and publishing, petroleum, rubber, plastics, and non-electrical machinery contributed nearly $50 billion in shipments to the state's economy.



*Government:* Every good corporation has at least one customer that's rock solid, and Virginia has the federal government. With the exception of Hawaii, no other state is impacted more, relative to its size. In 1986, 170,000 military personnel were stationed in the state; 169,000 civilians worked for the government within state boundaries; and another 60,000 lived in the state, but worked outside in metropolitan Washington, DC. If that weren't enough, Virginia and its local municipalities employ their own army of bureaucrats, and they're more than half a million strong.

But business, like states, doesn't prosper unless people are producing things other than paper. Here, too, Virginia fares well. In the Port of Hampton Roads, three new high-speed container cranes and an agreement to deepen its harbor have attracted 15 new shipping lines in the past 3 years. Foreign trade traffic will bring some $300 million annually to state coffers, while employing 114,000 people in virtually every job description.

ly enough to the frenetic nature of the American apparel marketplace. Consumer tastes can change overnight, and domestic sources have taught themselves how to react to shifting consumer demands. "Domestic mills," says Pickler, "are embracing quick response. They can now produce on an as-ordered basis, which allows the retailer to reduce expensive inventory."

According to George Wino, chief economist for the American Textile Manufacturers Institute, quick response has eliminated $12 billion in the inventory pipeline. Such market agility, however, is not a panacea for the industry and many considerable obstacles, such as labor, persist.

Although mill products are generally not labor intensive, wages impact pricing, particularly when the disparity is great. Wino points out that in 1987 the average American textile worker earned $8.81 per hour in total compensation. While not exactly lucrative employment, wages compare favorably with countries that have been steadily gaining U.S. market share. For example, in Singapore a textile/apparel worker averages $1.94 per hour, in Hong Kong $1.87, and in Korea $1.09.

. . . Bureaucrats, technocrats and a nuclear navy help keep Virginia's economy afloat . . .

Such differences have had an obvious impact. Import penetration is approaching the 50% mark says Wino, noting that between 1980 and 1986 offshore sourcing has tripled. "China is now our number one supplier of textiles and apparel," he says, "and they came from nowhere just 15 years ago.

"I think we can produce textiles better than any other country in the world," says the economist, "the problem has nothing to do with productivity, but [with] levels of wage."

### LOOKING FOR FRAYED EDGES

Fortunately, U.S. output per textile worker has been increasing by 4.5% annually (compared with 2.7% in manufacturing), and the value of apparel shipments (after adjusting for inflation) was 3% higher in 1987 than in 1986. Here credit is due the manufacturer. During 1987, a record $2 billion was invested in new equipment, and, for the distributor, that means keeping a watchful eye on plant maintenance, repair and operations.

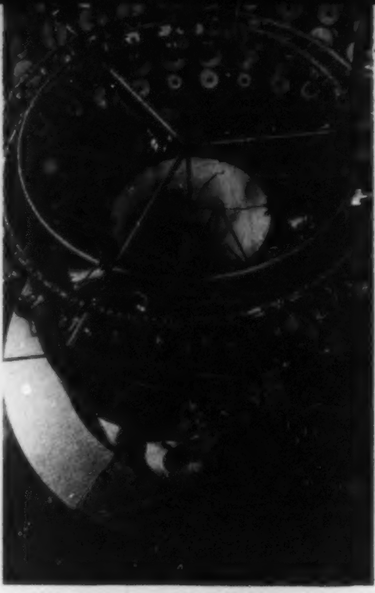
"Once the new equipment starts wearing out," says Charles Cate, president of Associated Industrial Supply Co., "they'll be needing new parts, and we'll be there to sell them." Headquartered in Columbia, SC, this general line distributor, which operates eight branches in three southern states, remains cautiously optimistic about textiles' future. "A year or two ago they shut down a number of plants in the area that have not reopened and probably never will. So that depressed the industrial distribution business in this area.

"We're starting to make up for textiles with some new industry that has moved into the area," says Cate. Among them, he points to a number of auto-related businesses and a fiber optics manufacturer, as well as a computer company. While Cate notes that his product line is not ideally suited for technology businesses, he's far from asleep at the helm. "We've got to adapt our company to a high-tech environment," he says confidently, "and will."

### AGRI-BUSINESS: COTTON IS KING

*The nation's agricultural businesses have been getting a lot of attention. While farm foreclosures steal the headlines, tobacco companies have been drawing fire, and paper mills have been losing market share to Canada, Europe and, you guessed it, Japan.*

Thanks to India, China and mother nature, Southern cotton growers are having a good year. While crops were off in the Far East, the Mississippi Delta finally got the rain it needed, and demand for the cotton boll grew while synthetic fibers lost ground. This has made farmers in 17 cotton-producing states very happy, as prices have soared from a 1986 low of 25 cents per pound to more than 70 cents today.


Burlington Industries, Inc.

. . . Modern textile equipment is the defense against the $1.09-per-hour Korean worker . . .

Much like other commodities, cotton seems to have that ability to make or break a business overnight. From his home office in Columbus, GA, Pierce Massey knows enough to keep attuned to farming markets but prefers to replenish his income on more reliable businesses like forest products, pulp and paper, textiles, food processing, and cattle operations.

### DOWN, BUT NOT OUT

Massey's Industrial Bearing & Transmission, a specialty distributor of bearings, transmissions and fluid power, also has locations in Dothan, AL, and LaGrange, GA, which allows his business the kind of diversification it needs in the event of a downturn. From his Dothan branch, Massey principally serves forestry, paper, automotive, and electronics, while agricultural products comprise about 10% of his business.

"Cotton is no longer king," said Massey, "but it's still a factor. The combine," he says, "is just loaded with power transmission and bearings." Cotton pickers and peanut combines, he explains, have roller chains, bearings, hydraulics, V-belts, sheaves, and sprockets in large numbers. And when one of them breaks down, says Massey, "it could be a pretty good bit of business."

Other agri-based businesses in the South seem to be faring well, says analyst John Pickler. Some of his favorites include the forestry sector, pulp and paper, and, specifically, furniture manufacturers. "Trends in the furniture industry are actually quite positive," he says, while the problem of obtaining suitable woods has been the only difficulty that industry has experienced.

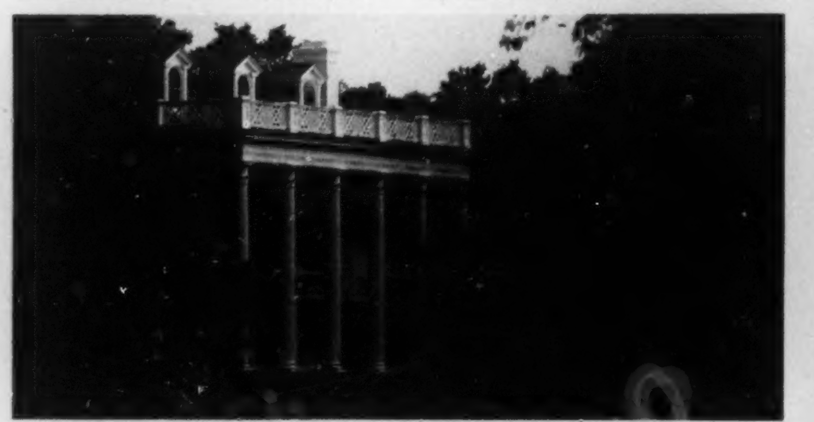
# TENNESSEE

## A distribution hub

Although there are more endearing state slogans, Tennessee (along with Indiana) now likes to think of itself as "America's Distribution Center." The reason for this rivalry is rooted in a simple four-letter word: jobs. Comfortably positioned between the industrialized North and the Gulf of Mexico to the south (Chicago and Mobile are both 450 miles away), Tennessee is within 500 miles of 76% of major U.S. markets.

Since 1985, Japan's Nissan has been located just outside Nashville in a town called Smyrna. In its first year there, the Japanese auto manufacturer produced 43,810 cars. Based on *Ward's Automotive Reports*, 1987 production suggests a banner year with 136,000 cars rolling off the lines of the $850 million plant. But Japanese investment has not stopped there. Bridgestone Corp., the world's third largest tire manufacturer, has invested $100 million in its 160-acre LaVergne tire facility. Meanwhile, total Japanese investment in Tennessee of $1.3 billion employs 9,000 people in 31 manufacturing and 24 sales and/or distribution operations.

The state's real windfall, however, has not come from overseas but


**A Spring Hill home: Saturn and 6,500 GM workers will soon be neighbors of the Haynes Haven farmhouse.**

In Tennessee, a general line distributor has also noticed the relative strength of the furniture industry, noting that "woodworking seems to be holding up real well." Unabashed about his company's willingness to improve the bottom line, he adds, "casket manufacturers are doing a hell of a job." What, if anything, distributors can do to increase business there is a matter of speculation.

### OIL, GAS AND COAL COULD HEAT UP

*The specter of revolution and war on a dozen Middle Eastern fronts is, in large part, responsible for the world oversupply of oil. (After all, wars and military hardware are strictly cash purchases.) As a consequence, idle oil rigs throughout Gulf Coast states have wreaked havoc on the South's economy.*

Witness the Arab oil embargo of 1973, and the volatility of that commodity becomes painfully clear. Even more difficult to accept, however, is that the U.S. has learned too few lessons. Although less dependent on oil imports than in the past, America is still a net importer, and much of this nation's fortunes (particularly those of oil patch states) still rests precariously on the whims of sheiks, mullahs and Silkworm missiles half a world away.

**Timber falls as prices soar: Forest products remain a valuable crop, as furniture, paper, pulp, and caskets are always in demand.**

Closer to home, the southeast part of the U.S. is one of the most competitive markets for oil as well as the most depressed (see p.44). Further, natural gas suffers from the same problem of global over-supply as oil, and, to compound matters even more, coal demand has plummeted in the wake of cheaper, more efficient and cleaner energy sources.

"In February 1986, the oil business came to a screeching halt," says Robert Hunt of Ft. Worth's General Industrial Supply Co. "We did more business in January and February of what we call our oil industry business

rather north from Detroit. In August of 1985, General Motors announced that it had chosen Spring Hill, TN, as the site for its $5 billion automobile factory. Designed to take the Japanese head on by deploying advanced technology and self-directed production teams, GM's pricetag on its new line of Saturn cars will have to eliminate a $2,000 cost advantage the Japanese currently enjoy on each and every family-sized automobile they produce. Due for completion in the summer of 1990, the Saturn plant will have a production capacity of a quarter of a million vehicles and will provide the area with 6,500 handsomely paid jobs.

### CAMBAR JOCKIES FOR POSITION

The sight of 6,000 workers using abrasives, pneumatic hose, power tools, materials handling equipment, safety and security supplies, welding equipment, and the like is not a thought that has been lost on distributors. In February of last year, Cameron & Barkley moved into the state with its purchase of two distributorships: Rogers-Bailey & Browning, a Chatanooga power transmission specialist, and Knoxville's Browning Belting & Supply. At that time, a company spokesman said that CamBar was simply interested in obtaining systems contracts from large industrial plants. No doubt. With 140 inside and 160 outside salespeople to keep busy, it's probably a safe bet that somebody has thought to pay the plant a courtesy call.

Distributors not already in on the action need not despair. According to Saturn spokeswoman Laurie Kay, GM is still encouraging vendors interested in supplying the facility's MRO requirements to contact Saturn directly. Additionally, industrial distributors are not necessarily closed out of GM's OEM purchasing either, but it would be wise to get moving fast.

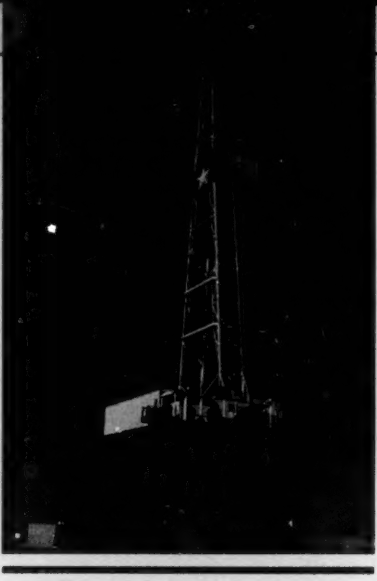
Suffice it to say, Tennessee appears to have everything the auto industry needs: a competitive labor force, right-to-work laws, plentiful natural gas and coal production, and a highly favorable tax structure (distributors are exempt from all property taxes on inventories). The state will continue to grow as a prime manufacturing location.

### LANDING BUSINESS WITH SATURN

Although a series of meetings were begun in March of last year for companies interested in distributing MRO products, Saturn has indicated that inquiries should be forwarded to:

*MRO Suppliers:*
Mr. Terry DuPuis
Saturn Corp.
P.O. Box 488
Spring Hill, TN 37174

*OEM Suppliers:*
Material Management Dept.
Saturn Corp.
P.O. Box 7025
Troy, MI 48007



than we did the other 10 months of the year."

Such news is hardly surprising. Like much of the South, many distributors are intensely dependent upon the good fortunes of the oil industry. In the west Texas market of Brownwood and San Angelo, Hunt describes business as "absolutely dead," adding that they're happy to see a customer or two a day walk into the "store."

To overcome the devasting effects of idle oil rigs, General Industrial has moved fast and looked hard for new markets. "Business appears on the upside of good," Hunt says confidently, having found business in such diverse markets as institutional-type furniture, residential construction and even a dog food manufacturing plant.

In addition to selling a full line of coated abrasives, cutting tools, hand tools, power tools, and paints, the company is also heavily into the electrical market, seeking out automotive, aircraft and machinery companies in the area. "If they buy," says Hunt, "we'll cover them. We're not very selective."

. . . To overcome the devastating effects of idle oil rigs . . . distributors must move fast and look hard for new markets . . .

Few businesses in the South are. Even the banks in Texas are in trouble because of monies loaned directly to the oil industry, as well as mortgages based on the prosperity of the oil market. On top of it all, a mammoth glut exists in commercial real estate, which, in turn, has virtually halted all new major construction. "Where once you saw cranes all over the place in Houston," said Hunt, "now you don't see any."

### PROBLEMS UP NORTH

If it's true that misery loves company, Gulf Coast distributors might consider taking a trip to the coal mines of Kentucky and West Virginia. Victim of the same oil glut that has ravaged their Southern cousins, the coal industry is being beaten by the $18 barrel of oil and overseas competition.

Despite weakness of the dollar, the U.S. has not been a low-cost producer of coal. Says John Pickler of Wheat First, "demand has not been very good for U.S. coal export," adding that Australia, Columbia and South Africa are all lower cost producers. Simply put, he says, "they can produce it and put it in Europe or Japan cheaper than the U.S."

At Smith & Brooks, Inc. in Charleston, WV, President Albert Nester has not taken his state's cur-

## PETROLEUM

### Praying for the $22 barrel

In recent years, Gulf Coast distributors have had very little to cheer about. From Brownsville, TX, to Mobile, AL, distributors who built their livelihoods on the fortunes of oil have seen good times and bad, but few can remember seeing times like these.

Today, oil is still a boom-or-bust business. From the time it was first pumped from the ground 128 years ago, oil has performed like every other cyclical commodity. Just when it appears that business has dried up, hope gushes forth with every new find and every new rig back in service.

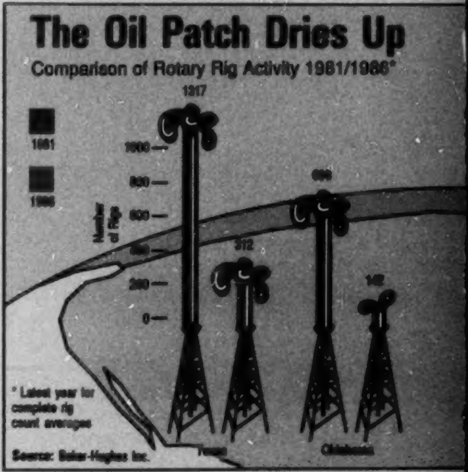
At last count, some 1,101 rigs were operating throughout the U.S. and Canada, versus 762 last year. Despite this increase of 44%, overall rig activity (see chart), which is considered an important indicator of oil services' health, is down dramatically since a 1981 high of 4,233 rigs.

The question therefore persists: what will it take to get Southern oil rigs out of their mothballs and into the fields? And when can Southern distributors, who are so terribly dependent on this market, look forward to improvement?

Ronald Londe, a securities analyst for the St. Louis investment bank A.G. Edwards & Sons, Inc., has his own ideas. "To really get the market moving," he says, "from the standpoint of drilling equipment, rigs and all the ancillary services that go along with it, you're going to have to see oil in the $22 range."

Although Londe cautions that there is nothing magical in this price, he emphasizes that, for the majors to start drilling again, price stability over the next several years is a most important ingredient. The reason—typically it takes 3 to 5 years to get oil or gas production on line. "Anything they do today," says Londe, "won't really offset their bottom line for at least 3 years, at the earliest."

Howard, Weil Financial Corp., a New Orleans broker of oil stocks, views the situation similarly. "What will drive rig activity right now," says market specialist G. Bryan Dutt, "are for the producers



The Oil Patch Dries Up

Comparison of Rotary Rig Activity 1981/1986*

* Latest year for complete rig count averages

Source: Baker-Hughes Inc.

rent problems lying down. Although he admits that West Virginia has only coal and chemicals as major business, he has still managed 4% growth during 1987 while increasing his inventory about 15%.

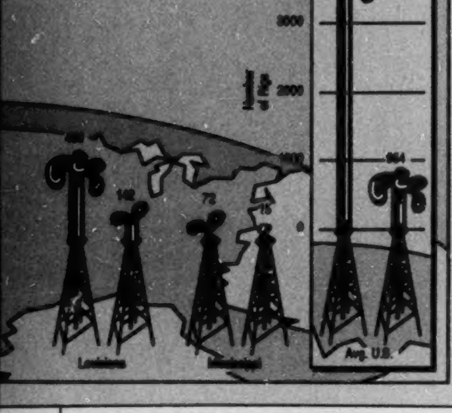
"Competition is very keen down here," he says. "We have the Union Carbides, DuPonts, Olins, FMCs, Monsantos . . . they carry the big stick, and they can dictate volume discounts and demand service," which Nester is only too happy to provide. But because of robotics and automation, productivity has improved, manpower has been lost and there are fewer smaller goods for him to supply to the mines. "Dollars earned," Nester explained, "are going back into the private sector."

Operating throughout the surrounding states of the Ohio Valley, a second branch in Roanoke, VA, has helped to keep his customer base at least a bit more diverse. A "specialty house" of instruments, tube fittings and valves, Smith & Brooks is watching neighboring Kentucky carefully. Noting that Toyota now manufactures cars there, Nester wonders whether more auto manufacturers are to follow. He is also encouraged by some of the good news spilling out of the oil patch.

As large leasing rights along the Gulf begin to expire this year, smaller independent contractors are expected to begin drilling offshore. Unlike inland wells, deep-water drilling requires an extraordinary amount of support services, which means cash could once again find its way to shore. Although additional oil and gas finds can only help depress prices further, oil patch distributors will be glad to take the business.

**The sun sets on Gulf Coast rigs: If independent contractors start deep-water drilling, dollars will begin to flow.**

to see price stability. If they see oil at $30 in the next few months, well, that's not enough unless they also see it staying there for a few years." News of increased offshore drilling has, in fact, buoyed the spirits of oil-dependent businesses. This reversal in activity is attributed to the major oils moving to avoid the loss of highly valuable drilling leases. Contracts with the federal government require that drilling take place within the first 5 years of the agreement, or rights to those leases are subsequently forfeited and investment capital lost.



With approximately $1.6 billion in undrilled leasing investments due to expire in the Gulf this year, and another $2.3 billion due by 1990, the majors must quickly decide on a course of action.

Keeping the oils from diving headlong into additional investing are not only depressed oil prices but a severe oversupply of North American natural gas. "If natural gas prices don't improve," says analyst Londe, "companies are going to have to make a lot of hard choices to go ahead and actually drill prospects or simply let their leases expire."

At Schlumberger Ltd., a major oil field services company, George Patent watches U.S.-Canadian rig counts with the same care a physician monitors heartbeats. "Offshore drilling is increasing today," he says, "and I suspect it will continue for the next year."

Some of the majors, he explains, are farming out their leases to independent companies called turnkey operations. "If they hit," he says, "they share in the profits—if they don't, the majors don't have any expenses."

Will Keener, managing editor of the industry journal *Gulf Coast Oil World*, agrees with Patent, noting that Louisiana rig activity has increased "in part because there is anticipation that oil prices will be climbing and in part because oil leases are expiring."

"Oil service companies are completely dependent upon rigs," admits Patent. "That's true for all service companies. We controlled [oil] prices for years, and we paid for it in '73 and '79." Today, he explains, "we're not paying a market-driven price for oil and gas, and so we'll pay for it once again in the 1990's."

If that's not necessarily good news for the consumer, it's certainly good news for distributors who hang their hats on pumping wells.

FINDING MARKETS in the SOUTH

### MANUFACTURING: JAPAN MOVES

*The quality of life in any country can be measured in large part by the breadth of its manufacturing base. In turn, a large portion of manufacturing is automobile related. Stated simply, if the U.S. cannot build automobiles by itself, for itself, this nation's standard of living could diminish.*

Consider two important facts. First, the United States is the world's largest market for automobiles. Second, the Japanese automobile industry is going global. Conclusion? All seven Japanese car manufacturers importing to this country have launched or have scheduled to launch U.S. manufacturing operations by themselves or through joint ventures. The goal is to bypass expenses incurred through importing, deepen market penetration, increase return on investment, and ultimately send American dollars back to Japan in the form of profits.

To the 21,000 Americans who will shortly find themselves working for Japanese automakers, such a threatening scenario seems hardly worrisome. And for the seven states that are the recipients of $4.25 billion in Japanese auto investments, concern has given way to the bulldozers and cement trucks.

. . . While construction proceeds on Saturn's manufacturing plant, GM is actively seeking MRO and OEM suppliers . . .

In Nashville, TN, distributors are particularly pleased to see Japanese investment, as Nissan annually builds 240,000 Sentra cars and 1-ton trucks in a nearby community. Additionally, General Motors' Saturn plant is currently under construction in Spring Hill, which is expected to create 6,500 new jobs at the the factory site alone.

Says Thomas Luken of Nashville's Luken Supply, Inc., "we anticipate a rather awesome amount of suppliers to come into here." But he hesitates when asked if this is a market he's ready to join. "We don't get into the automotive sector," he says, "but probably should. It's a very competitive business, and we just don't give our product away."

However, Luken is already tied to car manufacturing, at least indirectly. His customers include Nissan, Bridgestone and Ford Glass, which, incidentally, supplies Nissan with all its glass requirements. But with a nearby Eaton paper plant closing, layoffs at an aircraft manufacturer and rumors that Nissan will be cutting back on its Sentra production, Luken is not showing all of his cards. "We're a general line supply house," he says. "I don't know if there are many left in the country but we still are, and our business has been very, very good."

Also strong in the South is aerospace construction, particularly in Dallas/Ft. Worth, where General Dynamics manufactures the F-15, and in central Florida, where Martin Marietta recently completed its production of the Pershing missile. Presently, the company is manufacturing anti-aircraft and anti-tank weapons as well as night vision systems and laser-guided artillery.

Interestingly, right-to-work laws, which are widespread below the Mason-Dixon line, have attracted the interest of manufacturers who have too long felt the discomfort of union slowdowns and poor worker morale. "Tennessee doesn't have a lot of unions," said Charles Garrison of the Tennessee Assn. of Business, indi-

## CATFISH

### The South's brightest star

Question. What weighs 250,000,000 lb, has whiskers, swims in a pond, and can claim June 25 as its own national day?

If you said the catfish industry, you were right. You would also be an exception, because most people, let alone most distributors, are not aware that this bottom-feeding sucker also means big business.

Unconvinced? Then consider this. In 1970, the entire U.S. catfish market was worth a scrawny $6 million. Today, according to the Catfish Farmers of America, its high-water mark has reached $750 million with no sign of abatement.

Sporting 700 members throughout 37 states, the association consists principally of farmers and processors, most of whom use the kinds of items that any other fish and food processing business requires: conveyor belting, power transmissions, hose, sanitary supplies, and materials handling equipment. Modern plants are now capable of processing 1.7 million lb of catfish a week, while feed plants are churning out wheat, milo, corn, and fish meal in quantities that could (pardon the pun) satisfy a whale.

No doubt, catfish has become the most important agri-business to surface in the South. And with business concentrated in Mississippi, which produces 70% of the nation's crop, distributors in Arkansas, Alabama and Louisiana who have already sampled the fish might now be interested in sampling the market.

Catfish Farmers of America

**A haul of Mississippi catfish: Not much to look at, but its profits appear attractive.**

**Japanese robots invade Smyrna, TN: Nissan's investment will produce 240,000 cars and trucks a year.**

cating that this was a principal reason Saturn invested in the state.

Population forecasts from the Dept. of Labor show that the sunbelt continues to draw residents from northern states and, of course, nonresidents from neighboring nations. So even if oil and gas production is never to return to the South in such strength (which by the way, most oil analysts don't foresee), the fact that an increasing number of people want to live and work in the area will, in itself, create more business.

At the Southern Industrial Distributors Assn., Gary Buffington appreciates all too well the plight of his members. "There are still a number of companies out there," he says, "that are in tough straits that haven't been able to replace lost business. There's going to be more shakeout," he says, but admonishes that "the creative ones have moved into some non-traditional markets."

While new markets are a fact of life distributors can learn to live with, moving into a new business is not. The evidence shows that, while distributors can attempt to restructure their product lines to accommodate shifting markets, most companies are restrained by geographic considerations and as many are simply over-leveraged.

Such problems are not easily overcome, and, unfortunately, Buffington's prediction is more a matter of fact than conjecture. But opportunities do exist, while options seem limited only to looking in new directions, examining unfamiliar territory and trying to sense what's just around the corner.

In the meantime, waiting for oil services to recover is not a viable solution. Learning to turn over new stones is, however, a useful start. ☐

## INVESTMENT

State competition for manufacturing investment dollars has become very keen. As the chart indicates, in 1986 Mississippi attracted more new manufacturing money ($444,294,000) than the other six states listed. Although Kentucky and Tennessee were close seconds, the potential impact of new and expanding investment dollars becomes more focused when viewed in terms of investment per resident. While these seven states found an average of $234 for each resident (including those in the armed forces), Mississippi has beaten its competitors with twice the new investment dollars ($482)., Although Virginia has found fewer new investors than the others, the state has maintained its prosperity by virtue of a large military and federal employee population. On the other hand, the chart also demonstrates that Oklahoma is running far behind the pack, with only $108 of manufacturing investment per resident. Short-term prospects for an economic upturn in that state appear unlikely.

### Manufacturing Investment in the South (selected states: 1986)

Source: INDUSTRIAL DISTRIBUTION

| | Arkansas | Kentucky | Mississippi | Missouri | Oklahoma | Tennessee | Virginia | Average |
|---|---|---|---|---|---|---|---|---|
| **New manufacturers** | 56 | 98 | 95 | 98 | 40 | 123 | 76 | 84 |
| **Investment ($ thousands)** | 42,100 | 358,895 | 444,294 | 190,122 | 143,468 | 360,031 | 110,800 | 224,101 |
| **Expanding manufacturers** | 257 | 653 | N.A. | 163 | 63 | 205 | 86 | 238 |
| **Investment ($ thousands)** | 572,029 | 659,329 | 821,421 | 1,054,508 | 213,609 | 704,880 | 154,400 | 597,168 |
| **Total investment** | 614,129 | 1,018,224 | 1,265,715 | 1,244,630 | 357,077 | 1,064,911 | 265,200 | 832,841 |
| **Investment per resident** | 259 | 273 | 482 | 246 | 108 | 222 | 46 | 234 |

# Modest growth seen for Industrial belting

*Members of the National Industrial Belting Assn. (NIBA) assembled in Canada this fall under the banner "Expanding NIBA's Horizons." By meeting in the competition's own backyard, the organization appears to be putting slogans into action.*

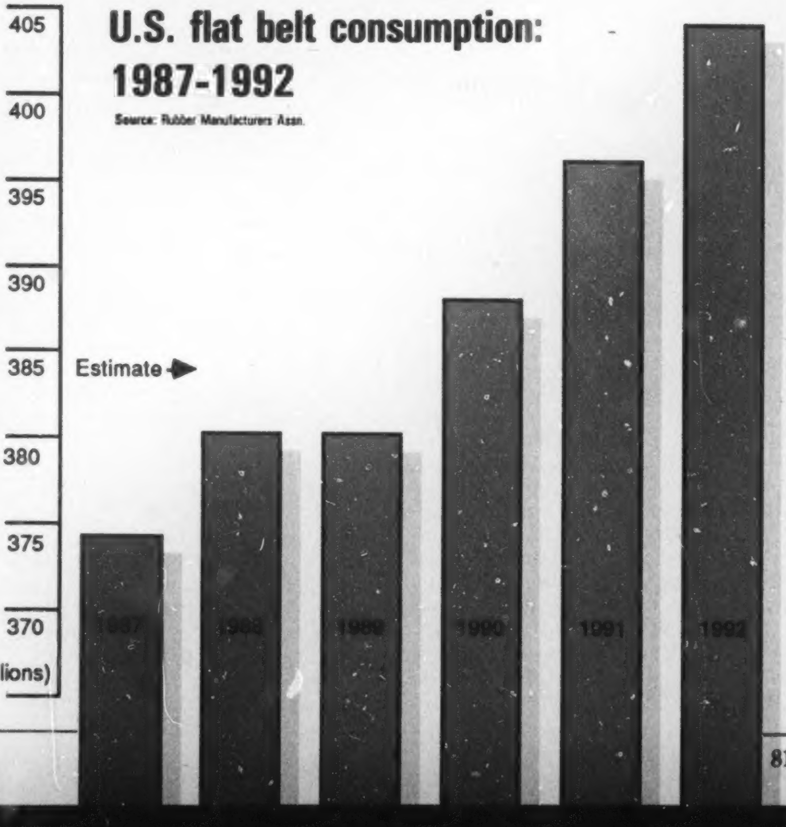
The National Industrial Belting Assn. gathered in Toronto this October amid conversations of new markets and new opportunities. Of course there was the usual talk about shrinking markets, offshore competition and supplier-distributor relations, but, in all, the mood was decidedly upbeat.

Fueling this good humor was, perhaps, positive news contained in a report by the Rubber Manufacturers Assn. (RMA). Prepared for NIBA and presented during the convention, the RMA study confirmed what those in attendance already knew: industry vital signs for flat belting are in good shape for 1988, with an annual growth of 1.6% forecast through 1992.

The factors contributing to the health of flat belting are directly traceable to the markets it serves. Principal among them are mining, auto manufacturing, agriculture, lumber, and highway construction, all of which look strong. In the mining sector, depressed oil prices have lessened the demand for coal, although the industry appears to be climbing out of its 2-year slump.

On the agricultural side, fresh rain and a weak dollar have supported export demand for a number of cash crops, many of which have improved in price. At the National Oats Co. in Cedar Rapids, IA, Ed Hawkins re-

**By John G.F. Bonnanzio**
**Associate Editor**



U.S. flat belt consumption: 1987-1992

Source: Rubber Manufacturers Assn.

ports that sales for the company's Dura-Buket Div. are strong. "Grain has started to move again," he says. "The barges that had been sitting on the Mississippi full of grain are either being used up or have rotted away. Now farmers are producing again. And even though you don't read about it in the paper, a lot of them are quietly making money."

Flat belting may also thank the federal government for a helping hand, as road construction money for the nation's highways has finally filtered through the system. Meanwhile, American car manufacturers are enjoying record profits, although this has not translated into improved belting sales within the auto sector.

According to NIBA's president, John Wardrop, sales of industrial belting to the auto industry have fallen off as robotics increasingly perform materials handling functions. Also, longer belt life and improved belt utilization have depressed overall belt consumption. "There are some markets that have been declining," says Wardrop, "and, frankly, where they aren't declining, they're getting more competitive."

'Some markets . . . have been declining, and, frankly, where they aren't declining, they're getting more competitive.'
—Wardrop

Other industries are demonstrating vitality that should last the remainder of the year. Demand for wood products has been steadily increasing, and this is reflected in belt utilization for timber products. In addition, says the RMA report, "other positive elements on the economic horizon can be found in such markets as food processing and industries that serve transportation and chemical businesses."

### THE IMPORT PROBLEM

On the darker side, the American belting industry has its share of problems. Notably, the invasion of foreign-produced flat belting has rapidly advanced with imports now capturing 25% of the U.S. market. Ten years ago, offshore sourcing accounted for only 10% of market consumption, 15 years ago a scant 8%.

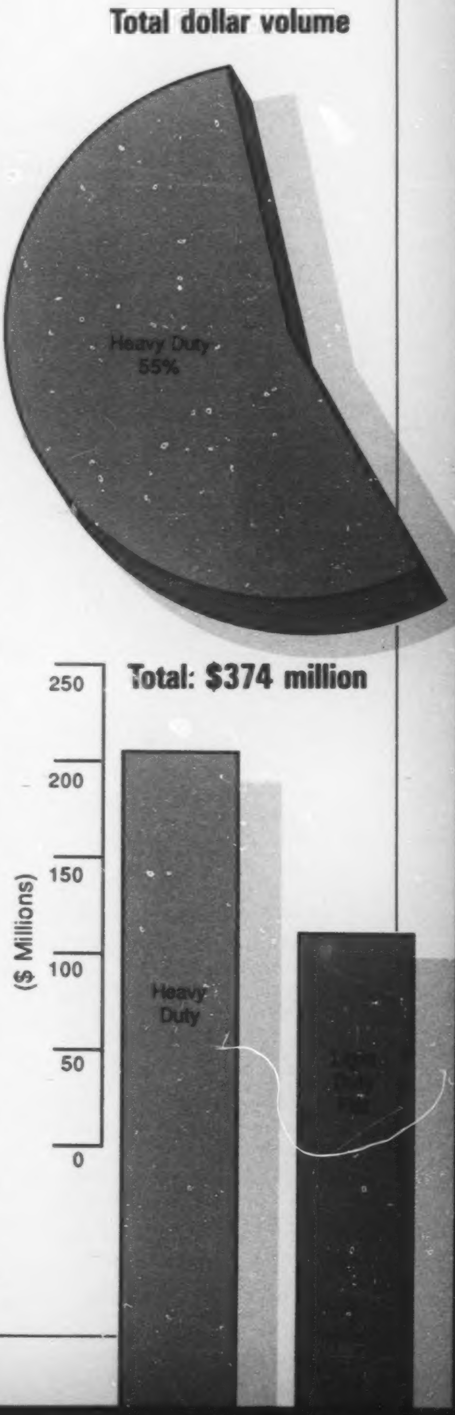
In presenting the study's findings to the belting association, RMA's Dominic Olivieri, Jr. noted that in "looking ahead to 1992 . . . [RMA] did not foresee any lessening in imports and, indeed, felt that the growth rate for imports could very well be higher than that experienced by the industry overall."

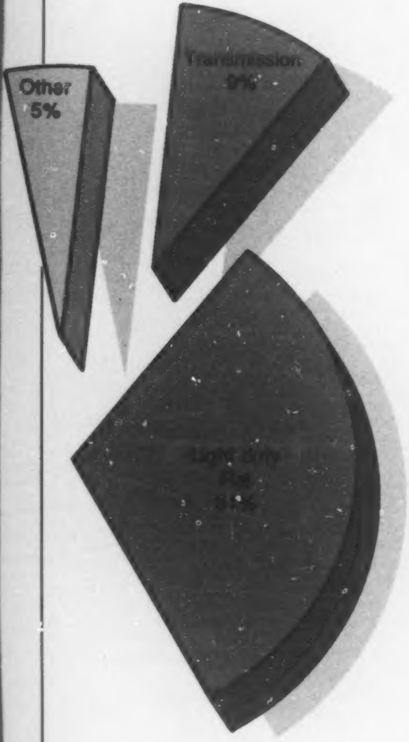
Gnawing at the heels of American flat belt producers are persistent competitors like Switzerland, Germany, Taiwan, and Canada, (the latter two lacking reputations as equitable trading partners). In the case of Canada, however, much of its somewhat tarnished image will soon be improved. With the framework for a U.S.-Canadian free-trade pact successfully negotiated, American manufacturers are looking forward to export opportunities in Ontario—an industrialized province once forbidden to but a few large foreign manufacturers.

This recent trade development is also good news for industrial distributors in close proximity to the Great Lakes. Once particulars of the free-trade pact are hammered out and agreed to by both nations, say trade experts, Canadian importing could be as simple as shipping a product

## 1987 industry purchases of flat belting

Source: Rubber Manufacturers Assn.





from Niagara Falls to Buffalo. And if Dept. of Commerce officials have predicted correctly, American small businesses will have as much opportunity to sell north of the border, as large Canadian companies already enjoy selling south of the border.

### SOME OF THE ISSUES

Although prospects for a healthy 1988 seem somewhat assured, distributor and manufacturer alike expressed concerns for industrial belting's future. While foreign competition is a noose around the necks of manufacturers, the distributor also shares an interest in evaporating markets. This has led to a degree of tension between the two sides simply because market competition is increasingly fierce. "Distributors are demanding specific geographic territories," commented a manufacturer, "and that's fine, but in return we expect to be their sole supplier, and they simply won't play on a two-way street."

Geographic perogatives and supplier exclusivity would not be an issue if America's industrial base was not in a slow, but persistent, retreat. The RMA reports that U.S. consumption of rubber and plastic belts reached $374 million in 1987, up slightly from 1986 ($366 million). But if such gains appear promising, keep in mind that in comparing 1979 to 1987, consumption increased just 15%, while American exports fell 37% from $27 million to $17 million by 1986. From these numbers one can paint a troubled picture; belting manufacturers are losing ground offshore as well as at home, and distributors are finding fewer large-volume purchasers relative to where the industry once stood.

Says NIBA's Wardrop, "when talking belting, the word 'commodity' is tossed around alot. And I guess that gets you into a mindset of well, there's nothing else we can sell. But we've been trying to address that in our programs, that we must really sharpen up our business practices."

One step in that direction, or really several steps, has been NIBA's on-going effort to assist its members in evaluating their businesses' performance. Plans include a quarterly sampling (conducted anonymously) of inventory levels, sales, receivables, wages, and salaries.

NIBA's technical advisory committee produces an engineering handbook on the proper fabrication and operation of flat conveyor belting ($25), while the marketing committee has a three-part videotape program designed to improve the product knowledge of entry-level employees (see box).

According to Tom Richardson, president of Conveyor Accessories, Inc., the 15-minute videos cover lightweight belts, heavy conveyor belts and mechanical belt fasteners. The tapes, he says, are also ideal for showing to potential customers both on the road and in a distributorship.

Wardrop emphasizes that distributors as well as manufacturers need to strengthen themselves internally by cutting overhead without decreasing services. "The role of the distributor is changing," he observes. "We really don't sell just belting; we sell an engineered product."

Externally, Wardrop says, "we must have a better understanding of where the markets are, and to do that, a continuing relationship between supplier and distributor must be established along non-emotional lines. Certain activities and relationships make sense. Good, strong discussions, with either your manufacturer or distributor partner . . . that's the key." ☐

## How to order NIBA's videos

NIBA's video lessons are designed to acquaint employees with products, terms, and identification of products sold through industrial belting distributors and manufacturers. The lessons are accompanied by an administrative guide and include suggestions for use of the learning system, employee training record forms and reviews.

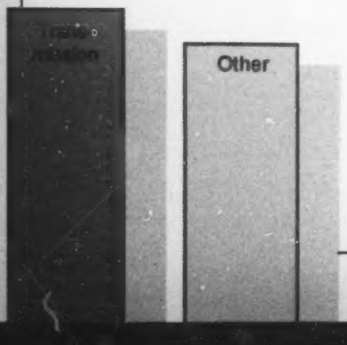
Tapes are available in ½-in. VHS and Beta formats and are sold as sets only. Demonstration tapes are available for 2-week examinations at $15, which will be applied to the purchase price.

NIBA members . . . $450
Non-members . . . $600*

Reduced prices for multiple orders.

*Contact Nancy Leavens, National Industrial Belting Assn., 1900 Arch St., Philadelphia, PA 19103.*

*Check must accompany order.



## FPDA/NFPA Fall Conference

# REDUCING THE Cost of SALES

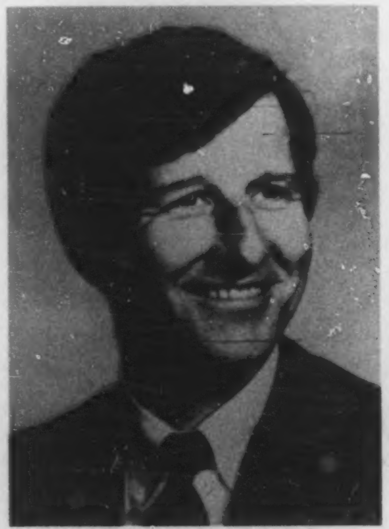
*Faced with a sales expense nearly 40% higher than that of their electrical colleagues, fluid power distributors studied management techniques with an eye toward operating more efficiently.*

**By George M. Fodor, Senior Editor**

According to statistics compiled by John Pearse, president of Pearse-Pearson Co., Inc., a Farmington, CT distributorship, a typical fluid power distributor allocates 36.8% of his gross margin dollars to cover the cost of sales. Conversely, Pearse reports, typical electrical distributors invest only 26.9% of their gross margins to pay for sales.

This nearly 40% differential, Pearse says, is one reason fluid power distributors "are not getting rich" despite having "aggressively streamlined their operations." Further, such high sales expenses contribute to the industry's declining personal productivity ratios (PPRs). By dividing total gross margins into total salaries, Pearse shows that fluid power distribution PPRs have dropped from 62.5% in 1981 to 61.0% in 1986.

Pearse's remarks crystallized the concerns of many who attended the Fluid Power Distributor Assn.'s (FPDA) fall conference, held in St. Louis Oct. 4-8. John Monoky, president of Monoky & Assoc. (Toledo, OH) and a popular industrial marketing and sales management consultant, expanded on the sales expense issue by specifying procedures for controlling costs.



**John Monoky stresses adopting a new view of inside salespeople as a key component in reducing the overall cost of fluid power sales.**

### A NEW BALL GAME

Monoky reviewed how a changing business environment is leading to a changing selling environment and how these changes impact sales management. Basically, Monoky sees economic, political and legal, competitive, technological, and social concerns creating a new arena in which fluid power distributors do business.

For example, Monoky explains, "new products and new players, including manufacturers going direct," mean that distributors have to know more and be more aggressive.

At the sales end, Monoky continues, managers must realize that "customers have more options, there is less customer loyalty, users are more conscious of value, and individual customer needs differ greatly."

Given this changing environment, Joseph Gallagher of the Walter B. Gallagher Co., a distributorship in King of Prussia, PA, says that managers should focus "on the quality of sales calls, not quantity. Salespeople," he continues, "have to be prepared to discuss appropriate applications with a particular audience."

Technical expertise, planning and follow up, experts agree, are now the key skills fluid power sales teams need. F. Richard Matthews, Automatic Switch Co., explains that manufacturers and distributors are "both members of a team, and neither one is more important than the other."

In detailing what manufacturers expect from a distributor's salesperson, Matthews emphasizes the need for "pre-planning a call, discussing potential problems well ahead of time, focusing only on the manufacturer's products, plotting follow-up strategies, and setting a time and agenda for the next meeting."

Therefore, sales success in today's fluid power market, according to Monoky, depends on a "better understanding of customer needs, better selectivity, better selling strategies, and better time and territory management." This means, he says, that "the sales program must be an integral part of an overall marketing program."

**MANAGING THE TEAM**

Distributors often pick precisely the wrong person to be sales manager, Monoky contends. "The sales manager is typically a salesman who continues to function as a lead salesman, when what we ought to have is a manager committed to managing," he says.

A true manager, according to Monoky, would be able to recruit, train and motivate a team of both outside and inside salespeople who, by working together, could balance on-the-road expenses with in-house efficiencies. This balance, in turn, could significantly reduce the distributor's cost of doing business.

Monoky explains that it is crucial that inside salespeople not be hired "under the assumption that when they grow up they'll be something else, such as an outside salesperson. Inside sales," Monoky emphasizes, "is a career path unto itself.

"We have a group of people here who could sell a whole lot more, if only we would let them, encourage them," he stresses. "The profile of an inside salesperson differs significantly from that of an outside salesperson, but when we give the inside sales force technical expertise and an understanding of customer needs, then inside salespeople *will* be able to upgrade and order, and they *will* be able to cross sell so as not to lose an order" (emphasis added).

**SPIRITED DEBATE**

With the cost of an outside sales call approaching $200, and with 63% of such calls spent talking with someone who can't buy, a typical fluid power salesperson who makes 1,000 calls a year "wastes" $126,000 worth of time in non-productive selling.

Figures such as these stimulated

**Distributors rate themselves as managers**

| Management practice | Very good | Good | Average | Poor | Very poor |
|---|---|---|---|---|---|
| Setting goals and standards | 5 | 17 | 45 | 22 | 11 |
| Coaching and counseling | 11 | 40 | 39 | 5 | 5 |
| Motivating | 17 | 44 | 39 | — | — |
| Developing people | 11 | 50 | 28 | 11 | — |
| Evaluating | — | 28 | 50 | 17 | 5 |
| Recruiting and selecting | 5 | 46 | 33 | 11 | 5 |
| Training | 11 | 45 | 33 | 11 | — |
| Organizing | 22 | 28 | 39 | 11 | — |
| Compensation | 22 | 40 | 33 | 5 | — |
| Overall rating | 11 | 40 | 44 | 5 | — |

**Source:** Monoky & Assoc.

**In a self-evaluation survey, only half of all distributors rated their managerial skills as "good" or "very good." Note that when it comes to setting goals and evaluating people, fewer than 30% of the surveyed distributors gave themselves above-average ratings.**

Source: [illegible]

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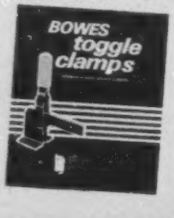

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lively give and take among FPDA conference attendees. During an extended panel discussion and question-and-answer session, attendees focused on the quality of support manufacturers supply and how that support impacts sales success.

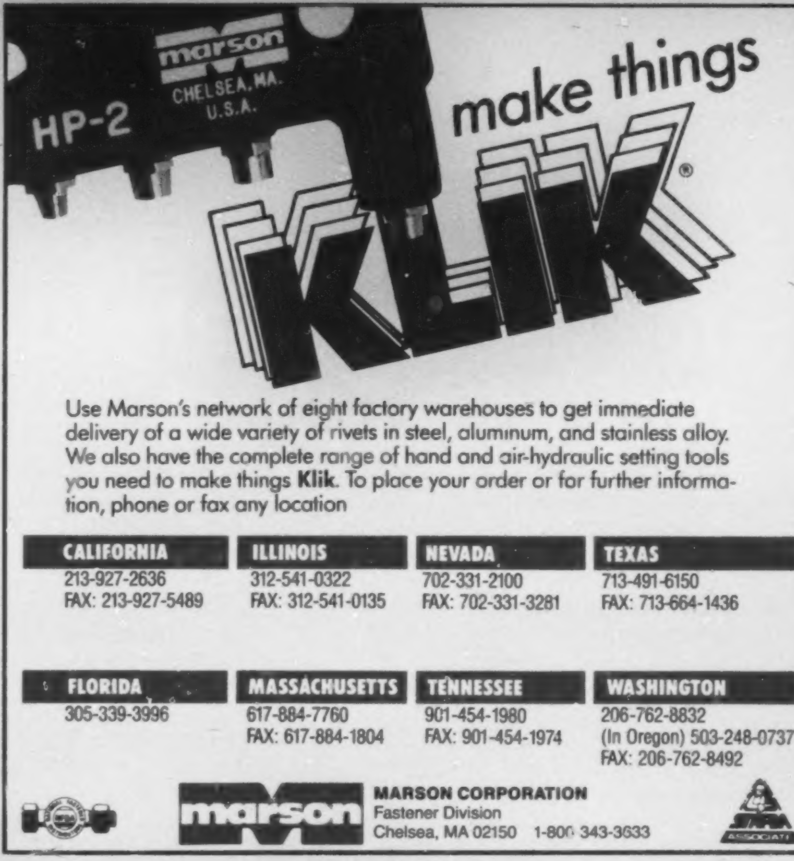
To make the sales process more productive, distributors discussed mutual evaluation of salespeople. In essence, this calls for both the distributor's and the manufacturer's representatives to analyze and review each other's performance during a sales call.

**John S. Gardner, president of GS Hydraulic Sales, Inc. (New Berlin, WI), has been elected 1987-88 president of the Fluid Power Distributors Assn.**

Several manufacturers concurred, citing the need for two-way feedback to eliminate confusion and to help maintain consistency.

Underneath this discussion ran the notion that fluid power technology is losing market share to alternative drive and control methods. To stem this flow of business, L. David Black, president and CEO of ARO Corp. (Bryan, OH), challenged attendees "to re-invent our partnership to become more customer driven."

Focusing on customers' production goals, in turn, requires technically astute salespeople, both in-house and in the field, who are creative enough to apply existing products in new ways. Doing that might not lower the cost of an individual sale, but it is expected that delivering solutions to users who need them will increase the percentage of successful sales.☐



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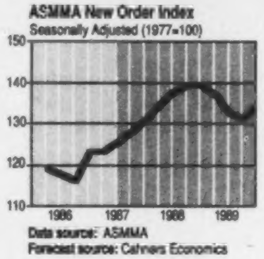
# Recovery holds steady course

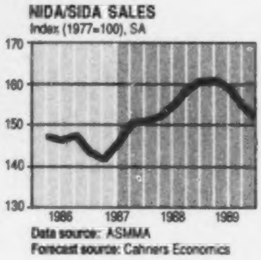
*OEM output will continue to expand through '88*

Despite the growling of the Wall Street bears, the industrial economy continues to expand. The production indices that measure the output of the OEM industries have been rising steadily since the first quarter of '87. The aggregate index for the OEM industries computed by Cahners Economics was up 3.3% in '87.

Increases in shipping activity have closely followed production increases—total OEM shipments were up 4.0% in '87. While last year's increases were not spectacular, they represent the beginning of a recovery that will last for the next 12 to 18 months.



Data source: ASMMA
Forecast source: Cahners Economics



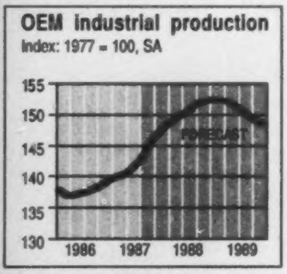
Data source: ASMMA
Forecast source: Cahners Economics

Durable goods backlogs offer further evidence that the recovery will continue. Total non-defense backlogs have expanded over $11 billion in '87. Industrial supplies, materials and components have shown strong gains, and the traditional machinery markets will continue to expand. These backlogs will reach their peak of $419 billion at the end of '88.

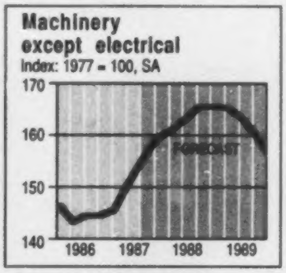
This expansion in the OEM will benefit the majority of manufacturers; however, some sectors will do better than others. The largest percentage gains in production will be in the non-electrical and electrical machinery sectors. Output of non-electrical machinery was up 4.1% in '87, and electrical machinery increased 4.6%.

Because these sectors represent major markets for distributors of industrial equipment, these trends bode well for increased sales in '88. Distributors' sales figures for the first 9 months of '87 indicate that sales in most regions are corresponding to the expansion in the economy.

The outlook for the industrial sector is for continued growth through the rest of the year. Exports of U.S. machinery are jumping, and domestic spending on producers' durable equipment is starting to rise. Production in the OEM sector will expand another 7 to 8% in '88 before leveling off in '89. ☐



Data source: Federal Reserve Board
Forecast source: Cahners Economics



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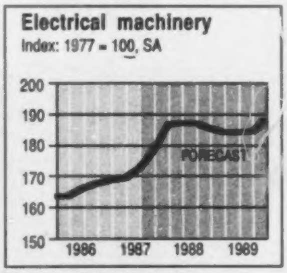

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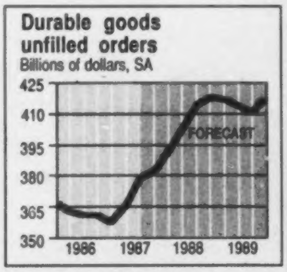


Data source: Federal Reserve Board
Forecast source: Cahners Economics

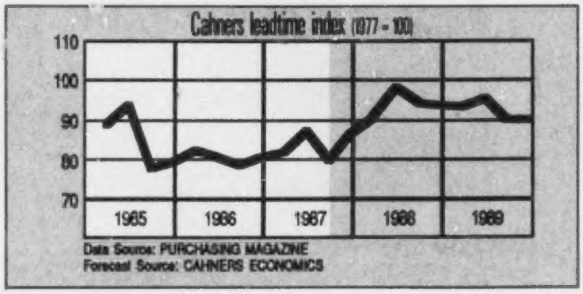
| **SALES BY REGIONS** (% Change) | SALES (%) FIRST 9 MOS. '87 vs. FIRST 9 MOS. '86 | | | RECEIVABLES (# of days) SEPT. '87 VS. SEPT '86 | | | | | | INVENTORIES (% of responses) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Both | Gen. | Spec. | Both | Gen. | Spec. | Both | Inc. | Remain The Same | Dec. |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | — | 19 | [illegible] | [illegible] | 42 | [illegible] | [illegible] | 43 | [illegible] | 33 | 56 | 11 |
| **MID-ATLANTIC** NY, NJ, PA | 8 | 18 | 16 | 42 | 42 | 48 | 42 | 44 | 44 | 23 | 61 | 16 |
| **SOUTHEAST** DE, DC, M[illegible] VA, WV, GA, NC, SC, FL | 13 | 12 | [illegible] | [illegible] | 41 | [illegible] | [illegible] | 76 | 47 | 27 | 50 | 23 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 4 | 3 | 16 | 38 | 44 | 46 | 39 | 45 | 46 | 12 | 47 | 41 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 11 | 16 | — | [illegible] | 56 | [illegible] | [illegible] | 48 | [illegible] | 23 | 69 | 8 |
| **MIDWEST** MN, ND, SD, IA, NE, KS, MO | 7 | 9 | 19 | 35 | 40 | 41 | 35 | 41 | 47 | 14 | 53 | 33 |
| **SOUTHWEST** AR, LA, OK, TX | -11 | -7 | [illegible] | [illegible] | 47 | [illegible] | [illegible] | 47 | [illegible] | [illegible] | 42 | [illegible] |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | — | 15 | 11 | — | 48 | 40 | — | 43 | 33 | 13 | 62 | 25 |
| **PACIFIC** CA, OR, WA | 10 | 9 | [illegible] | [illegible] | 43 | [illegible] | [illegible] | 42 | [illegible] | [illegible] | 43 | 22 |
| **U.S. TOTALS** | 9 | 3 | -5 | 43 | 43 | 44 | 43 | 48 | 44 | 24 | 52 | 24 |

# SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Supply conditions tightened in '87

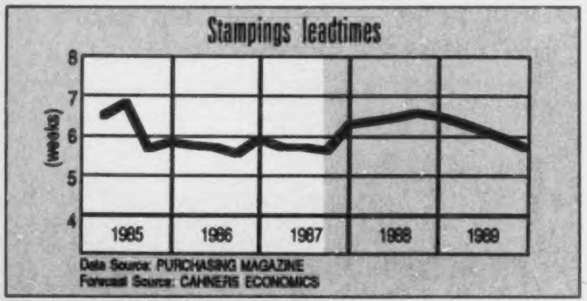
## *Leadtime index will stay below historic peak levels*



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

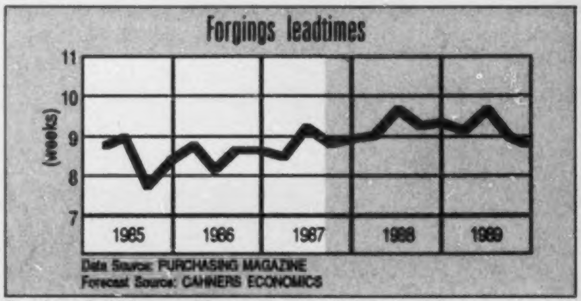
The Cahners Leadtime Index dropped slightly in November (the latest month for which we have data) to a level slightly below that of November '86. A composite of 85 industrial goods, the index is derived from exclusive data furnished by a survey of purchasing managers and agents for the nation's largest corporations. For all of 87, the index rose an estimated 4.4% from the '86 average, indicating that supply conditions tightened moderately last year. The index's average value for the year was around 84—well below the peak level of 136 seen in '79. The index is expected to rise a substantial 12.3% in '88 in response to higher capacity utilization levels, but it will peak at a value of 96—still well below previous peak levels. In fact, as a result of just-in-time programs, better inventory control procedures and increased integration of world markets, it is doubtful that the leadtime index will ever break 100 again. The leadtime index will appear monthly in *Industrial Distribution*. Some key uses of leadtimes are Price Forecasts—leadtimes rise before prices, because suppliers will not raise prices until they are sure it will not hurt them competitively. They will wait and see if the shift in the market is genuine, meanwhile leadtimes have made their telltale moves. Leadtimes are also useful in determining when business conditions are weakening. As orders fall, operating rates will remain the same only as long as there is backlog, but as soon as backlog falls, leadtimes will drop. They can also be useful in alerting distributors to shortages. If leadtimes jump dramatically and stay high for a few months, then there is accumulated pressure on capacity. This means that the peak in utilization is near.

Leadtimes are a source of information that will be of interest to anyone whose system of inventory management is based on changes in conditions.



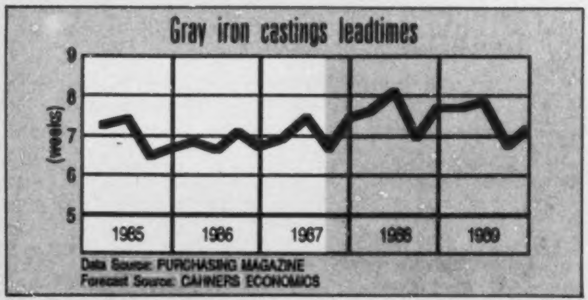
Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**After averaging 5.7 weeks for the first three quarters of '87, stampings leadtimes rose to 6.2 weeks in the fourth quarter. They will stay above 6 weeks for most of '88.**



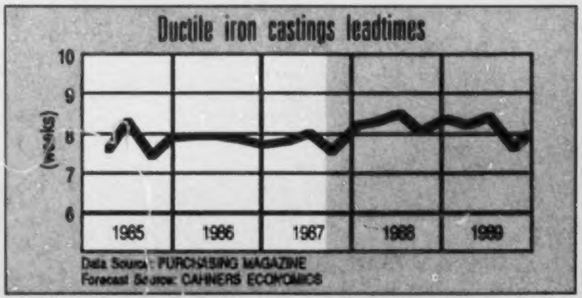
Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Forgings leadtimes will stretch out slightly in '88, averaging just under 9.5 weeks.**



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Leadtimes for gray iron castings will average 7.6 weeks in '88 after averaging 7.1 weeks in '87**



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Leadtimes for ductile iron castings will be about 8.5 weeks in '88. In '87 they averaged just over 7.5 weeks.**

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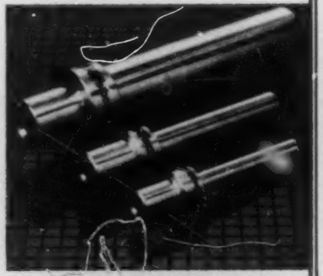

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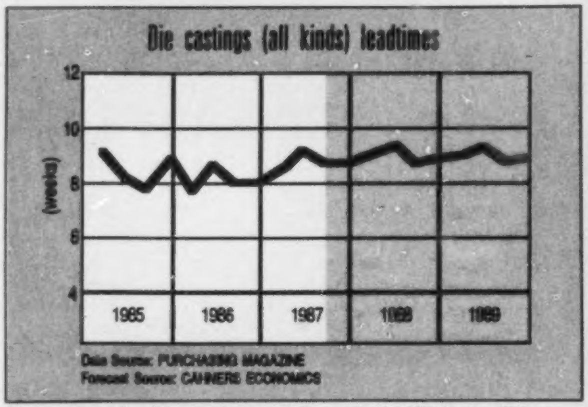
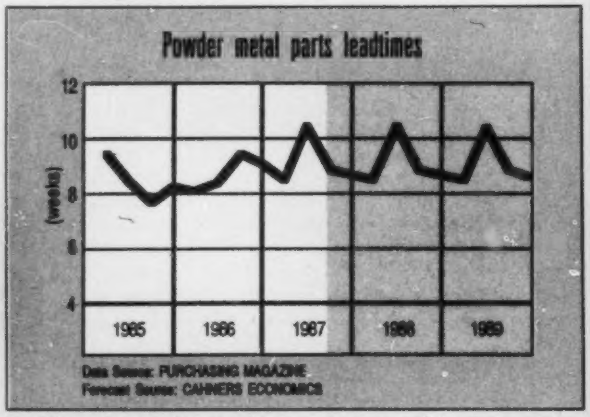
# SUPPLY OUTLOOK



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Die castings leadtimes averaged 9 weeks in '87 and will be the same in '88.**



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Leadtimes for powder metal parts are expected to change very little from '87 to '88.**

## Fabricated metal production to rise in '88

According to an index released by the Federal Reserve Board, industrial production of fabricated metal products expanded 2.0% in '87. The expansion was less than what was experienced by the industrial sector as a whole. However, the industry should grow 6 to 7% in '88. Fasteners, stampings and forgings will show the largest increases because of the weaker dollar and growth in their end markets. Structural metal products, suffering from the slowdown in the construction cycle, will have little gains in production. As demand for these products increases, leadtimes will stretch out slightly.

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FEBRUARY 1988
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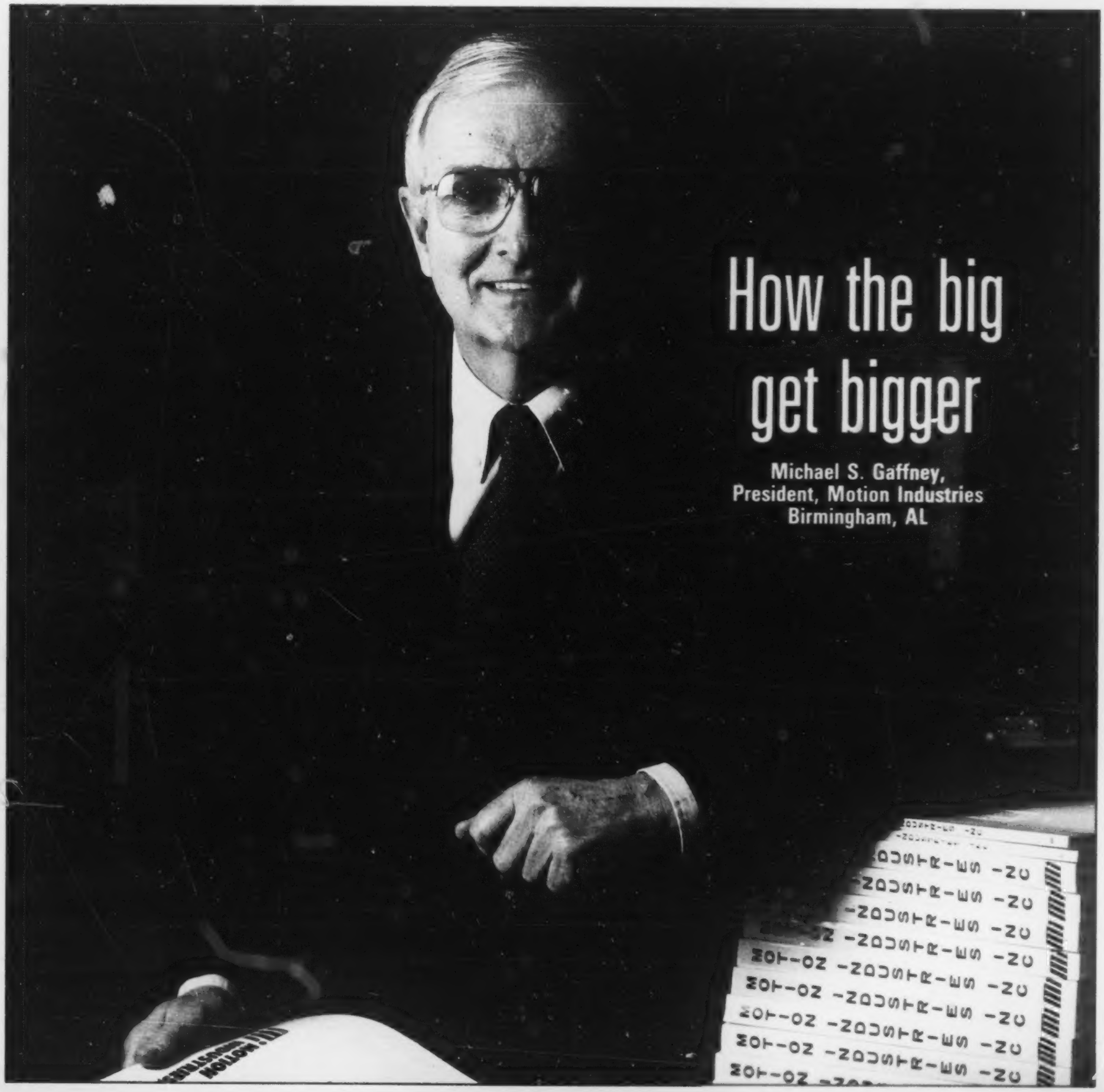
# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

**Covering the coatings market**



## How the big get bigger

**Michael S. Gaffney,
President, Motion Industries
Birmingham, AL**

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 2 FEBRUARY 1988 A CAHNERS PUBLICATION

Under the direction of President Michael S. Gaffney, sales at Motion Industries neared $425 million in 1987.

COVER STORY—MANAGEMENT

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Tips from the pros on which merchandising techniques work.

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It was all business when the Central States Industrial Distributors Assn. met in Chicago. ID was there.

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In an exclusive interview, Paul Fabacher, outgoing president of NAHAD, talks about his association.

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MANAGEMENT

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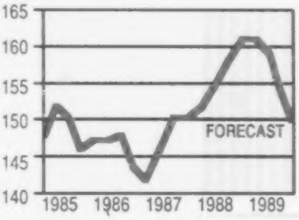
**NIDA/SIDA Sales Index**

1977 = 100



Good news for distributors serving heavy industry.

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Little danger of a supply crunch stopping the industrial recovery.

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Bob Clifton examines the rebirth of captive distribution and why it may be a threat to distributors.

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Here's how humor can be an effective sales tool.

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Portable data collection terminals are one facet of an overall automation program.

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# BUSINESS REPORT

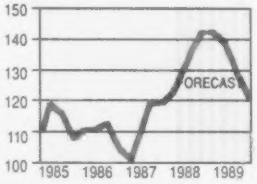
BY WILLIAM C. WOOD

# Strong industrial upturn in '88

*Increases predicted for distributors serving heavy industry.*

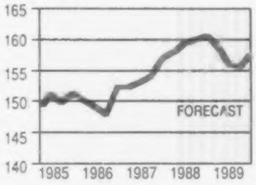
GNP growth in the U.S. will have a different mix in 1988 compared to the past 2 years. Nonresidential spending will add to GNP growth for the first time since 1985, as spending for structures rises above its recessed levels and equipment spending doubles its 1987 growth rate. Net exports will also boost GNP, as exports growth outpaces imports for the second year in a row. Inventory building will also contribute to the expansion.

**ASMMA New Order Index**
1977 = 100, SA



**Data source:** ASMMA
**Forecast source:** Cahners Economics

**NIDA/SIDA Sales Index**
1977 = 100



**Data source:** NIDA
**Forecast source:** Cahners Economics

Although consumers will continue to spend, it will be below their 1986 pace, with little growth in expenditures for durable goods like autos and appliances. Growth in government spending, particularly defense spending, will also slacken.

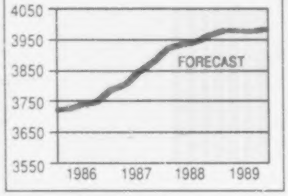
The result of these factors will be slightly more GNP growth in 1988 than in either of the past 2 years, with the average for the 3 years being right in line with the long-term average for the economy.

Because the growth is coming from the manufacturing sector, manufacturing capacity utilization is on the rise. The reasons: rising merchandise exports, increasing productivity and a generally strong economy. The percent of capacity utilized increased from 79.6% at the beginning of 1987 to 81.7% in the recently released October figures.

These trends will result in substantial increases in distributor activity in areas that serve heavy industry. The number of distributors in the north central and south central regions of the U.S. that are planning to increase their inventories has risen significantly since last month, as sales figures in these regions.

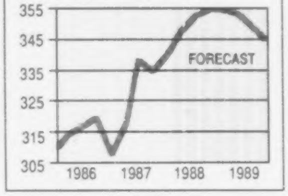
Distributors in regions that rely heavily on government defense contracts will begin to see a leveling off in activity, which would account for the large increase in the number of companies that plan to maintain or reduce current levels of inventory.

**Gross national product**
Billions of 1982 dollars, SAAR



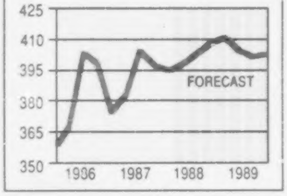
**Data source:** Commerce Dept.
**Forecast source:** Cahners Economics

**GPDI-producers durable equipment**
Billions of 1982 dollars, SAAR



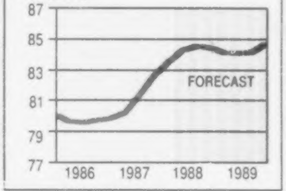
**Data source:** Commerce Dept.
**Forecast source:** Cahners Economics

**PCE-durable goods**
Billions of 1982 dollars, SAAR



**Data source:** Commerce Dept.
**Forecast source:** Cahners Economics

**Capacity utilization — manufacturing**
% capacity



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

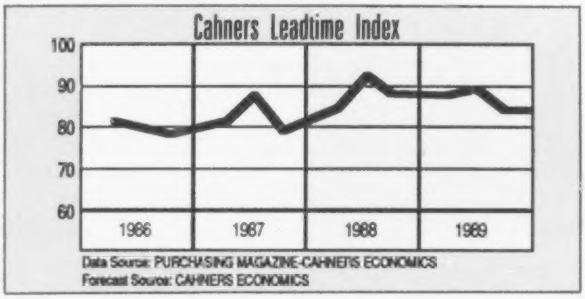
| SALES BY REGIONS (% Change) | SALES (%) FIRST 10 MOS '87 VS FIRST 10 MOS '86 | | | RECEIVABLES (# of days) OCT '87 VS OCT 86 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase Levels | Remain The Same | Decrease Levels |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | 17 | 5 | 21 | 40 | 38 | 44 | 37 | 37 | 44 | 13 | 62 | 25 |
| **MID-ADLANTIC** NY, NJ, PA | −4 | 0 | 7 | 52 | 44 | 46 | 53 | 45 | 48 | 22 | 52 | 26 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 5 | 15 | 15 | 38 | 50 | 40 | 49 | 49 | 40 | 14 | 64 | 22 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 1 | 9 | 20 | 41 | 47 | 60 | 39 | 47 | 56 | 27 | 53 | 20 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 23 | 39 | −15 | 20 | 35 | 56 | 35 | 28 | 50 | 50 | 30 | 20 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | −3 | 9 | 8 | — | 28 | 49 | — | 28 | 51 | 21 | 63 | 16 |
| **SOUTHWEST** AR, LA, OK, TX | −9 | 3 | 10 | 40 | 48 | 40 | 40 | 43 | 45 | 40 | 40 | 20 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | 20 | 13.3 | — | — | 34 | 0 | — | 44 | 0 | 0 | 40 | 60 |
| **PACIFIC** CA, OR, WA | 9 | 19 | 8 | 45 | 37 | 35 | 43 | 44 | 28 | 17 | 50 | 33 |
| **U.S. TOTALS** | 6 | 8 | 12 | 41 | 43 | 48 | 41 | 43 | 48 | 24 | 53 | 23 |

# SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Supplies in good shape

*Little danger of a supply crunch stopping the recovery*



Data Source: PURCHASING MAGAZINE-CAHNERS ECONOMICS
Forecast Source: CAHNERS ECONOMICS

Capacity utilization is rising, prices are beginning to heat up, and industrial supplies and components leadtimes are stretching. All of the usual supply-side signals are showing increased activity. The question now is whether or not there will be a supply crunch that will cut short the current industrial recovery like the crunches that cut short the past two recoveries.

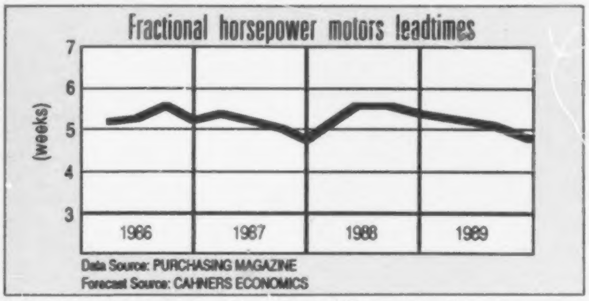
The answer is no. Although the indicators are rising, they remain at relatively safe levels for this point in the recovery. If these levels are compared to the supply conditions that prevailed during the past recoveries, it is clear that the current situation is not overheated.

More intelligent inventory management has resulted in supplies being in better shape now than in the past. Relative to sales, inventories are much lower now than is usual for this phase of a growth cycle.

Traditionally, inventory build-up has proceeded despite the lack of equal end market demand (recall the inventory woes of the auto manufacturers in '86 and '87), with the end result being a steep and long downturn in the business cycle at the end of a recovery phase. Tighter inventory controls have reduced these sharp drops.

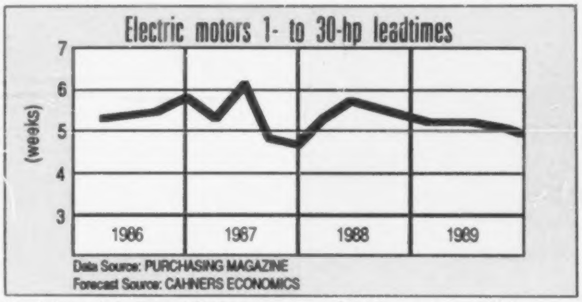
Other factors will also help minimize the danger of a supply-side expansion stopper. First, the nonmanufacturing sector will experience only average growth this year. Second, growth in most foreign countries will be weaker than in the U.S.

The result of these factors is an economy that is less cyclical—booms will be weaker and busts will be milder than they have been in the past for most industries. The time has come to pay closer attention to signals from the demand side (consumer market forecasters have already learned this), instead of from the supply side, in order to monitor tomorrow's industrial manufacturing trends.



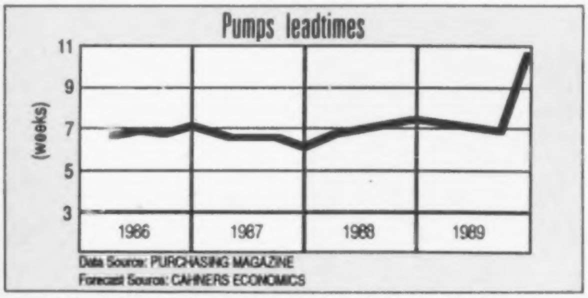
Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**After dropping to 4.7 weeks in late '87, fractional horsepower tor leadtimes will climb to 5.5 weeks in '88.**



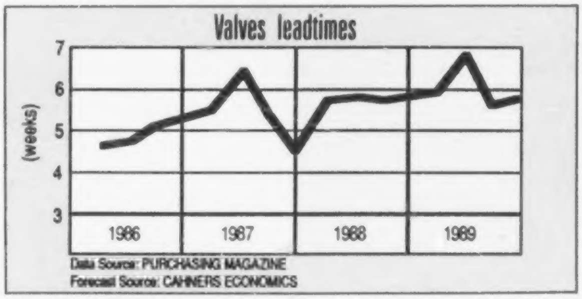
Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Leadtimes for 1- to 30-horsepower electric motors will increase, averaging 5.5 weeks in '88.**



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Pumps leadtimes will be over 7 weeks for most of '88, an increase of 10% over '87.**



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Forecast Source: CAHNERS ECONOMICS

**Leadtimes for valves have been lengthening since '85 and in '88 will average 5.8 weeks.**

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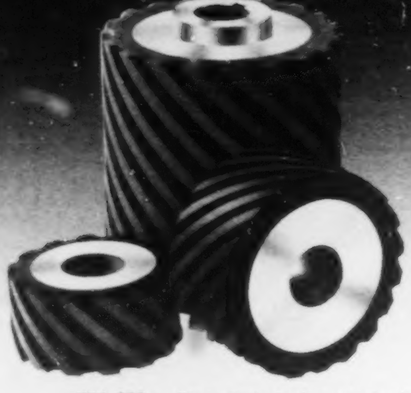

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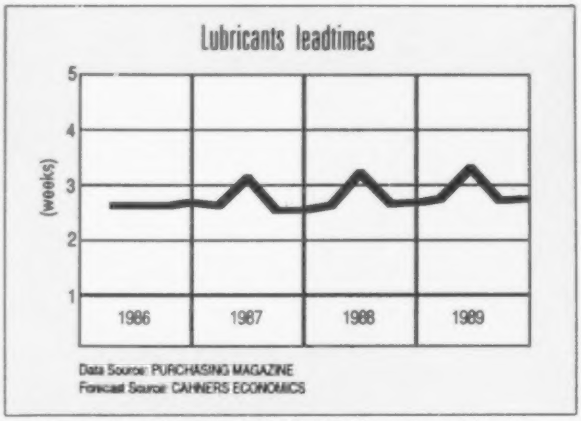
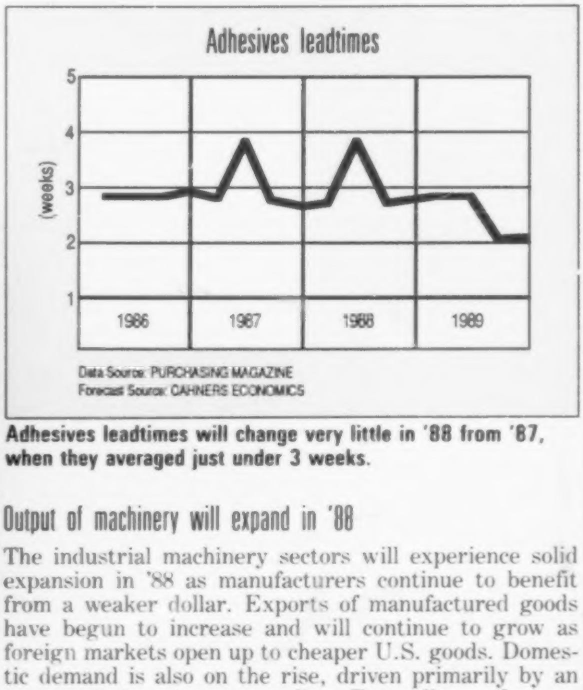
# SUPPLY OUTLOOK



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Steady supply will result in stable leadtimes for lubricants. They will stay at 2.6 weeks for most of '88.**



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Adhesives leadtimes will change very little in '88 from '87, when they averaged just under 3 weeks.**

## Output of machinery will expand in '88

The industrial machinery sectors will experience solid expansion in '88 as manufacturers continue to benefit from a weaker dollar. Exports of manufactured goods have begun to increase and will continue to grow as foreign markets open up to cheaper U.S. goods. Domestic demand is also on the rise, driven primarily by an increase in investment spending. Expenditures for nonresidential structures and equipment will rise substantially—with the majority of the growth occurring on the equipment side—as manufacturers add capacity to meet increasing demand.

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MARCH 1988
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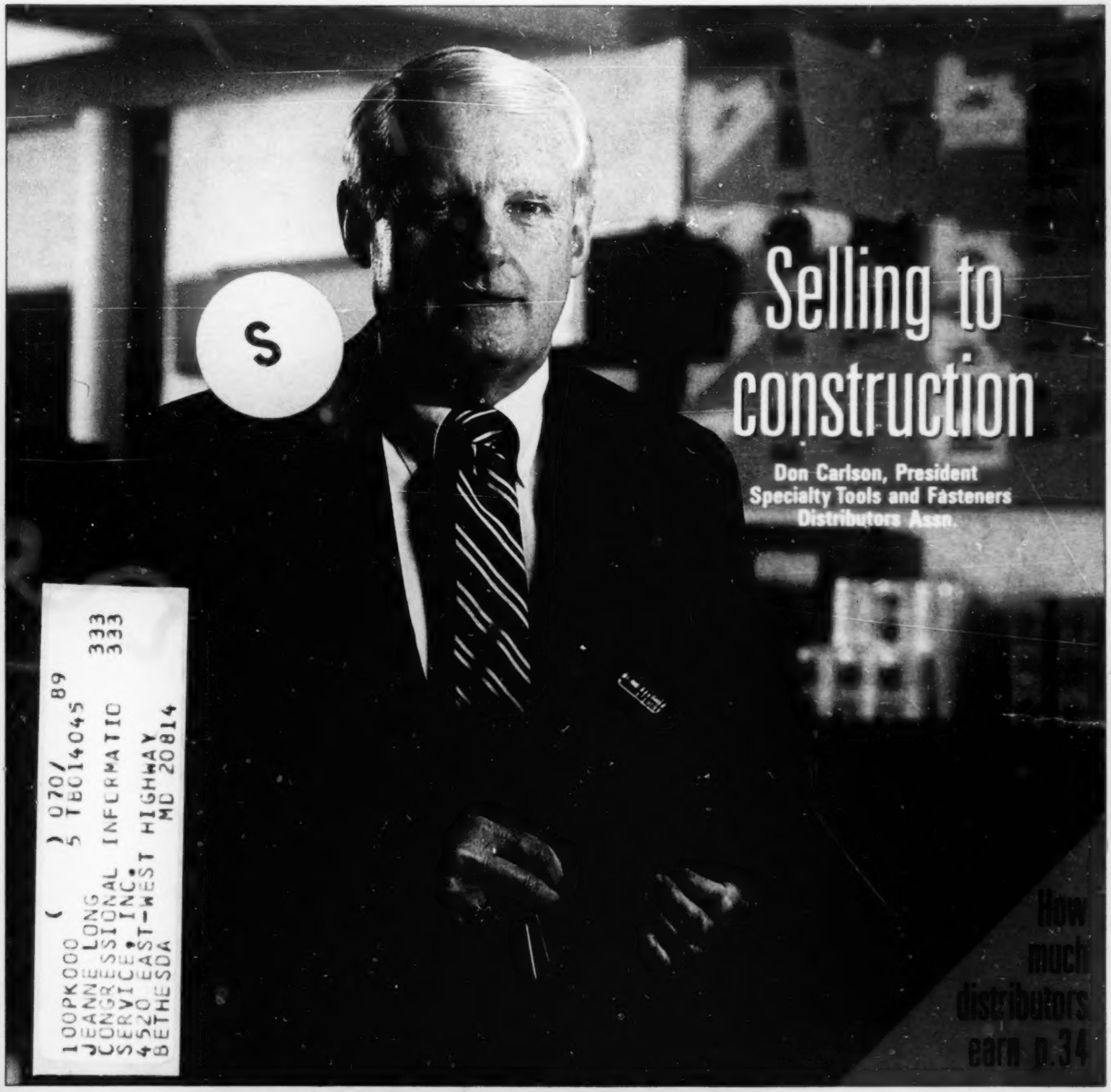
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

**SPECIAL:**
**Getting machine tool orders**



## Selling to construction

**Don Carlson, President
Specialty Tools and Fasteners
Distributors Assn.**

How much distributors earn p.34

S

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CONGRESSIONAL INFORMATIO 333
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# Industrial Distribution

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VOL. 77, NO. 3

MARCH 1988

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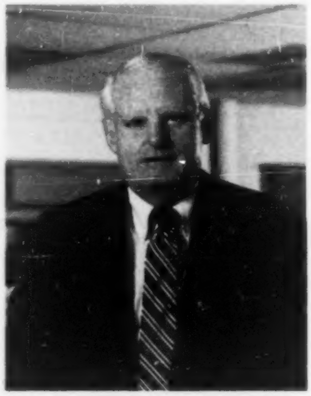

Don Carlson, president of the Specialty Tools and Fasteners Distributors Assn., tells why he's optimistic in '88 ... p.ST9

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**34 How much distributors earn**

An ID survey reveals the highs and lows in distribution salaries.

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**ST1 Specialty tools and fasteners**

A distributors' merchandising guide.

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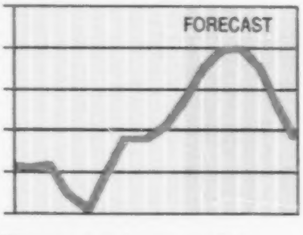
**131 Business Report**



The economic expansion continues despite the stock market crash.

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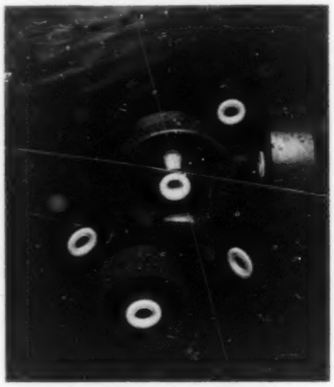

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### An ID exclusive

# How distribution pays itself

*Respondents to our salary survey indicate that there is wide diversity among distributors when it comes to creating compensation packages.*

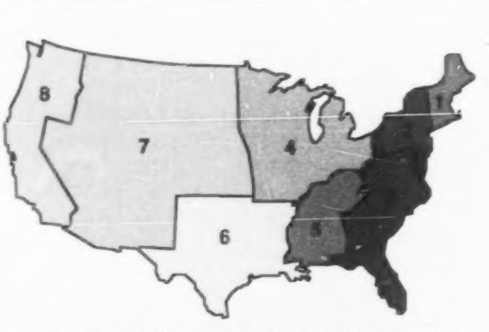
**By George M. Fodor, Senior Editor**

Compensation programs in distribution mirror the many ways that various executives run their businesses. The industry is a mixture of product lines, generalists, specialists, and diversifications. Similarly, the new salary survey reveals that distributors create a full spectrum of base salary, commission, bonus, and incentive combinations to reward themselves and their salespeople.

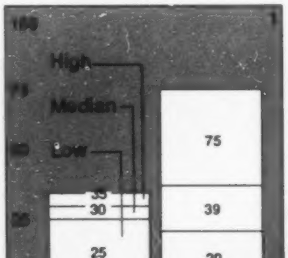
One overwhelming fact shines through all of the numbers: Distributors, collectively, place well within the nation's middle economic and social class, with average salaries of $49,295.63 for executives and $41,575.08 for salespeople.

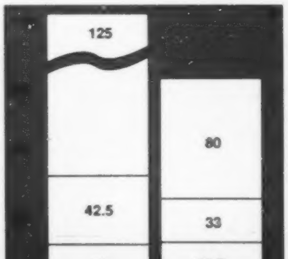
A second common thread among respondents suggests that it pays to specialize. Executives who identify themselves as specialists, for example, collectively claim a median salary of $42,000, nearly 6% higher than the $39,750 median claimed by general line executives. On the sales side, the spread is approximately 14%, with the specialists reporting a $38,200 median and the generalists coming in at $33,000.

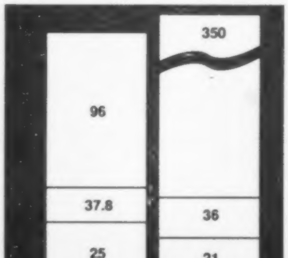
Clues as to why these differences exist can be found in the kind of specialties noted. Fully 27% of the executives and 47% of the salespeople who describe themselves as specialists deal in big ticket items and systems. The most frequently mentioned specialties include fluid power, power transmission

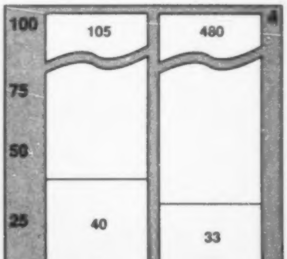


Survey responses indicate that Mid-Atlantic executives are among the highest compensated distributors.









and process control systems, as well as a collection of industrial automation and other high tech product offerings that continue to provide reasonable gross margins.

## SALARY BY SALES VOLUME

High / Median / Low ($ thousands)

| Annual Sales | Executives | | | Sales | | |
|---|---|---|---|---|---|---|
| | High | Median | Low | High | Median | Low |
| $1-$5 Million | 100 | 40 | 6 | 140 | 33 | 2.5 |
| $6-$10 Million | 125 | 60 | 18 | 480 | 35.5 | 20 |
| $11-$20 Million | 120 | 33 | 16.32 | 90 | 40 | 18 |
| $21-$30 Million | 125 | 45 | 5 | 350 | 40 | 19.6 |
| $31-$40 Million | 64 | 45 | 35 | 72 | 35 | 24.5 |
| $41-$50 Million | 11 | 11 | 11 | 73 | 41 | 20.2 |
| $51-$75 Million | 32.4 | 32.4 | 32.4 | 48 | 30 | 26 |
| Over $75 Million | 110 | 65 | 60 | 75 | 44 | 22 |

### WHERE THE BIGGEST BUCKS ARE

As the accompanying map shows, executives headquartered in the Middle Atlantic, West South Central and Pacific Coast states report the widest range of salaries. Both the highest high salaries and highest median salaries are reported out of these regions. Concurrently, some of the lowest executive salaries are also in these same areas.

For example, of the 25 executives responding from the West Coast, half pay themselves $50,000 or more, with at least one earning a high of $124,000. At the other end of the spectrum, one executive reports an annual salary of $5,000. Cross-tabulations of completely anonymous responses show this to be a West Coast distributor with annual sales between $21 million and $30 million.

Given the isolated nature of this response, it might come from a distributor who wishes to collect a minimal salary for tax purposes, or it might indicate a response from someone who chose to report base salary only, and not report other forms of compensation such as commissions, bonuses, stock options, or incentives.

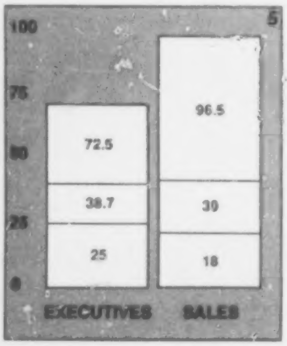
Among salespeople, salary highs, lows and medians are more geographically dispersed than they are among executives. Somewhere within the Ohio to Wisconsin corridor, there is one distribution salesperson who claims an annual salary of only $2,500, the lowest of lows in our survey. In that same region, another salesperson reports total compensation of $480,000—the highest of any salary reported.

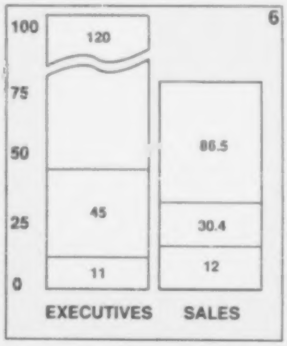
Again, cross-tabulations reveal this megabucks salary to be earned solely, 100%, through commission. Assuming the response is accurate, this person is a tremendous overachiever, especially considering that he or she sells for a distributor whose annual sales range from $6 million to $10 million. The numbers show that this single respondent earns in commissions an amount that equals between 4.8 and 8% of the entire firm's total sales, an arrangement that is, by far, the most lucrative in our survey.

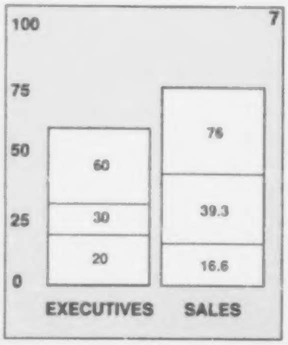
Another super-achiever sells for a distributor in the Delaware to Florida region which turns between $21 million and $30 million annually. This salesperson reports a base salary of $150,000 and a commission package worth $200,000 for total earnings of $350,000.

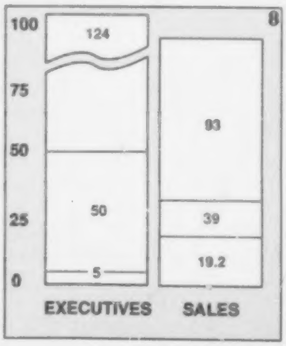
Discounting these extremes, the most generously compensated salespeople work in the East South Central, Mountain States and Pacific Coast regions, each reporting median salaries around $39,000. Within these groups, individual highs range from $86,500 to $96,500 annually.

To put these highest numbers in perspective, it must be noted that while 21% of all distribution executives report a salary of $70,000 or higher, only 7% of all salespeople fall into that same bracket.









### HOW THE INDUSTRY PAYS ITSELF

Fifty percent of all executives who responded to our survey report receiving a bonus that is a percentage of their base compensation. The largest group within this category, 24.3% of the respondents, identifies the bonus as ranging between 11 and 20% of the base salary. Twenty-one percent report the bonus to be more than 40% of the base, with 5.5% claiming a bonus greater than 100% of the base component.

Fewer salespeople receive bonuses, with 40% of the survey's participants claiming bonuses ranging from 1 to 67% of their total compensation packages. The most popular bonus level is 10%, a level cited by 11% of the sales force. No other specific percentage garners more than 3% of all sales staff mentions.

Among distribution executives, profit sharing and bonuses are equally popular ways of increasing total compensation. Again, 50% of executives surveyed take a share of the profits in a variety of ways. One person reports taking 30% of gross profits, while another takes 25% of the gross that is in excess of $200,000, and a third receives 10% of the adjusted net profit. Two executives report that their "subjective judgment" determines what percentage they will receive.

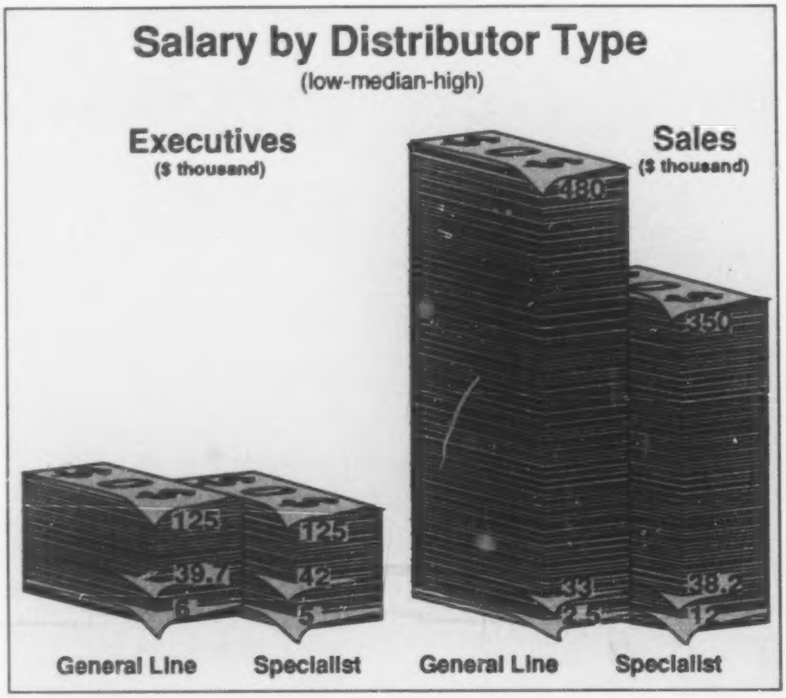
For their part, 36.2% of the salespeople who receive a bonus report a direct relationship between profits and the size of that bonus. Others acknowledge the impact of "management and ownership moods" and "tenure" as decisive factors in determining profit sharing.

Further, nearly 41% of the salespeople report that their commissions are a function of profits. While 22.9% of sales respondents describe commissions as an average percentage of sales, 40.9% report variable commissions determined by "percentage of gross profit," "percentage of gross profit over draw," "percentage increase of gross profit," and/or "graduated scale based on gross profit."

The vast majority of salespeople—81.1%—get credit for commissions when orders are invoiced. Far fewer—17.1%—earn commission credit when invoices are paid, and only 1.8% receive credit when orders are placed. Similarly, salespeople say that 71.6% of all commissions are paid monthly.

When it comes to commissions, industrial distributors distinguish between outside and inside salespeople. According to our survey, only 8.8% of all inside salespeople "share any form of compensation" with the outside sales staff. With regard to telephone sales, 83.9% of the inside salespeople responding report that they do not collect a commission on their work, and of the 16.1% who do receive commissions on telephone sales, there is a nearly 50-50 split between

## Salary profiles at a glance



## $ $ $ at-a-glance

President
Mid-Atlantic
Electrical specialty
$21-$30 million volume
$125,000 salary

Inside salesperson
South Atlantic
Power transmission specialty
$11-$20 million volume
$24,000 salary

President
Mid Atlantic
General line
$6-$10 million volume
$125,000 salary

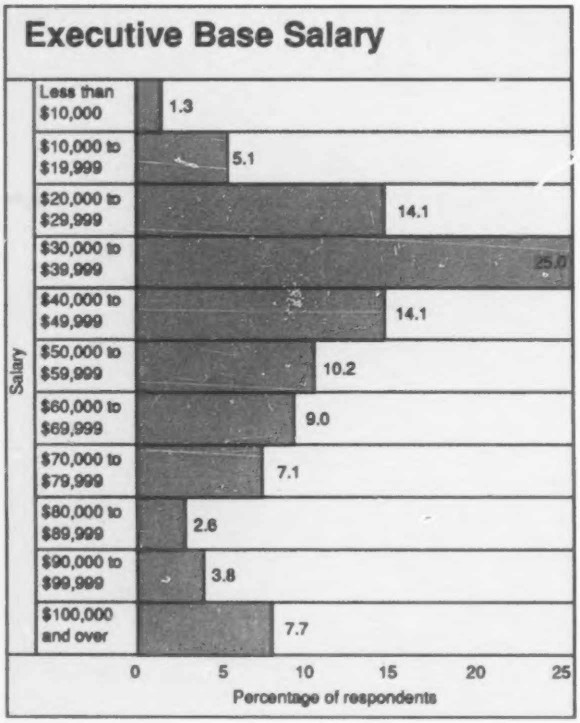
Outside salesperson
East N. Central
General line
$1-$5 million volume
$60,000 salary

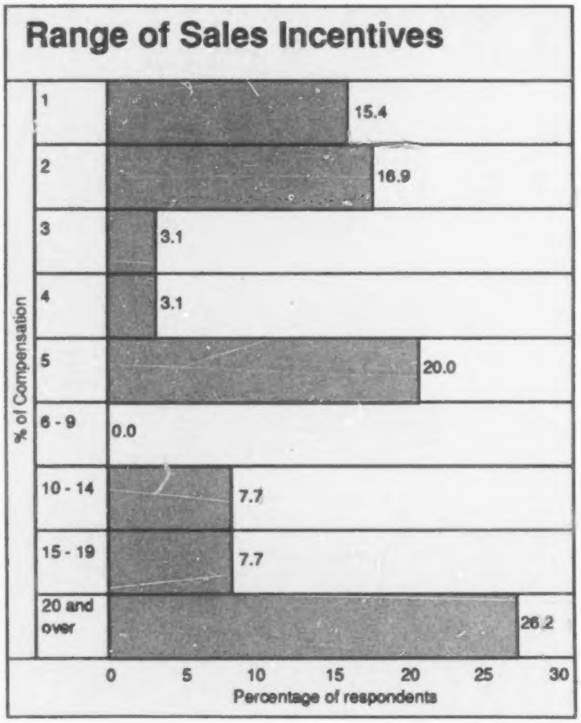
Exec VP/COO
Mid-Atlantic
Welding specialty
$6-$10 million volume
$94,000 salary

Inside salesperson
South Atlantic
General line
$21-$30 million volume
$30,000 salary

President
Pacific Coast
Fluid power specialty
$6-$10 million volume
$90,000 salary

Outside salesperson
East S. Central
General line
$1-$5 million volume
$42,000 salary


Executive Base Salary


Range of Sales Incentives

those who get a percentage of volume and those who get a cut of the profit.

**HANDING OUT THE PERKS**

Medical insurance, life insurance and cars are the three most dominant areas where distribution executives earn their perquisites. The company pays medical premiums for 91.6% of executives surveyed, with 68.6% having all their medical insurance payments covered and 31.4% benefitting from partial premium coverage.

About four-fifths (79%) of the executives have their life insurance premiums paid for, with 60.6% of these receiving full payment and 39.4% having only a portion of their premiums picked up by the firm.

Transportation perks abound for executives, as 73.1% drive company cars and 73.7% assign auto expenses to the firm. First-class air travel is available to 6.0% of executive respondents, while 4.8% also have access to a company-owned aircraft, boat or limousine.

The fact that 18.5% of responding salespeople report that their salaries come from commissions only or a commission-plus-bonus package seems to influence the perks available to the sales end of distribution. For example, according to the survey results, only 13.3% of distributor salespeople receive free medical or health insurance. No other single benefit is mentioned by more than 2.7% of the respondents, and this figure refers to car allowances and access to company-owned vehicles.

Three salespeople report club membership as a perk, but comments such as "vacation without pay," "work on an account basis" and "outside sales calls as needed" testify to the private contractor-type relationships that many salespeople in our survey have with their employers.

On the other hand, salespeople report being motivated by a variety of incentives such as "a trip to Switzerland," "Celtics' tickets" and "sales contests."

Imprecision regarding perks and incentives for salespeople results, most likely, from a survey strategy that asked respondents to identify items or policies that apply only to the sales staff as separate from all other employees. In future surveys, less restrictive questions should generate more accurate and complete data concerning sales motivators. ☐

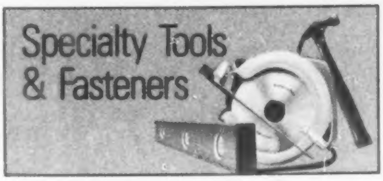
*Spiral-bound copies of* INDUSTRIAL DISTRIBUTION'S *60-page Salary Survey are available at a cost of $150.00 each, pre-paid. Write:* INDUSTRIAL DISTRIBUTION, *Cahners Publishing Co., 275 Washington St., Newton, MA 02158-1630, Attn: Susan Lawler, or call (617) 964-3030.*

## Survey methodology

**This survey was designed to identify the methods and types of compensation received by distributor executives and inside and outside salespeople. The total sample of 1,994 used for this study was randomly selected from recipients of INDUSTRIAL DISTRIBUTION, with 997 recipients having management titles and an equal number having sales titles.**

**A cover letter and questionnaire were mailed to each recipient on Oct. 20, 1987. A quarter coin incentive was used on questionnaires mailed to recipients having sales titles.**

**A total of 490 useable questionnaires were returned, 167 from executives and 323 from salespeople.**



# THE Construction MARKET

*Increases in both commercial and industrial construction outlays this year suggest that business is on a roll and will start pouring more dollars into projects that will benefit the distributor.*

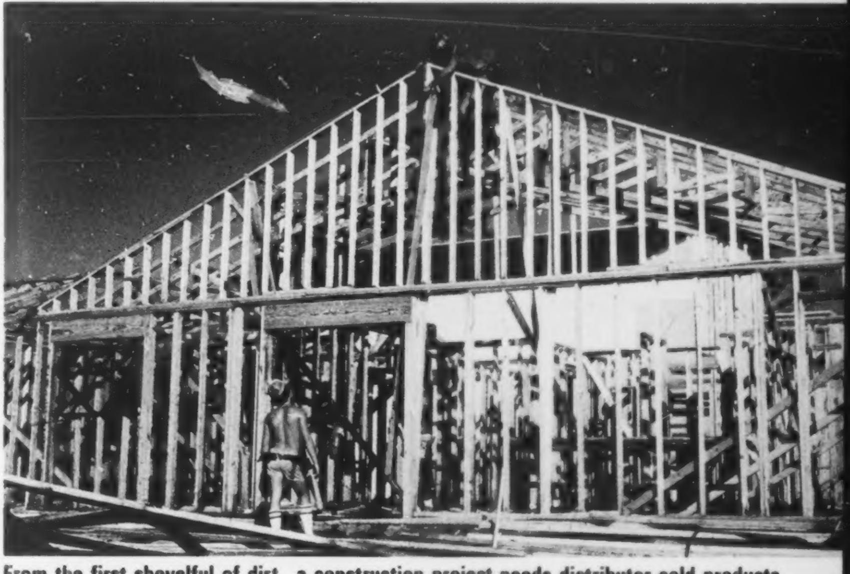
Distributors catering to the construction industry should enjoy improved sales prospects during 1988.

Power tools, hand tools, fasteners, and a myriad of related products will be in greater demand, according to recent statistics from the Cahners Building & Construction Market Forecast.

Much of the overall rise from 1987's $409.9 billion in construction spending to 1988's projected $438.7 billion will come from significant growth in residential building (from 1987's $209.4 billion to $233.2 billion in 1988). There will also be slight boosts in commercial, industrial and institutional projects ($113.3 billion to $118.4 billion), while non-building—including highway, street, and water and sewer projects—will virtually stay the same: $87.2 billion vs. $87.1 billion.

Since almost every construction project requires initial start-up assortments of tools plus replacements (portable equipment of almost every variety tends to "walk" off job sites), the projections should translate into a good business year for involved distributors.

Cahners' forecast is corroborated by figures of the Associated Equipment Distributors (AED), which also anticipates steady but unspectacular growth in 1988.


**From the first shovelful of dirt, a construction project needs distributor-sold products.**

According to just-released figures—and nearly 2 months after Wall Street's "Black Monday"—AED looks for an average 5.2% increase in gross sales for the first half of 1988. This increase should be spread virtually equally across the board with heavy equipment dealers garnering a 5% average growth in sales, general equipment distributors earning a 5.3% boost and light equipment shops benefiting from a 5.1% sales gain.

However, highlights of the report show that within the seeming similarity of statistics, there are marked geographic differences to be considered.

For instance, in the Northeast, optimism reigns vis-a-vis general construction plus sewer and water projects. Likewise, in the mid-Atlantic and Southeast, commercial construction plus highway and water and sewer projects are expected to be the leading markets.

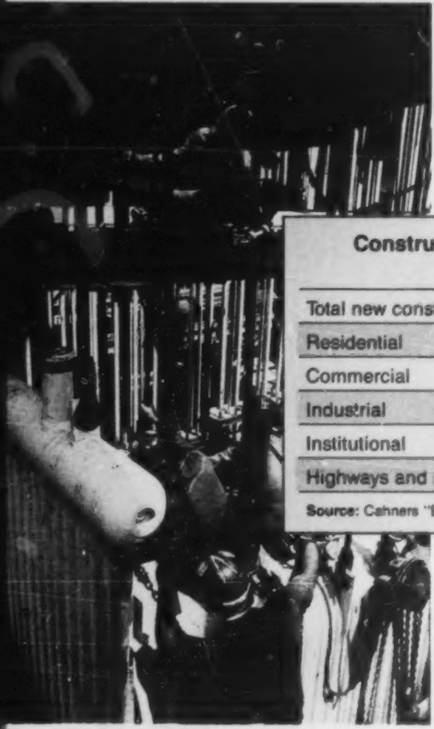
Similar non-building strengths are

Specialty Tools & Fasteners

**Construction Spending (in billions of $)**

| | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|
| Total new construction | 388.9 | 409.9 | 438.7 | 432.2 |
| Residential | 187.1 | 209.4 | 233.2 | 224.4 |
| Commercial | 64.2 | 59.6 | 62.2 | 66.5 |
| Industrial | 13.7 | 12.4 | 13.7 | 15.1 |
| Institutional | 36.7 | 41.3 | 42.5 | 40.7 |
| Highways and streets | 23.4 | 23.7 | 24.1 | 23.0 |

**Source:** Cahners "Building & Construction" Market Forecast



**Commercial construction, in particular, represents opportunities to sell large volumes of specialty equipment.**

**Source:** Cahners' "Building & Construction" market forecast

anticipated in the Midwest along with strong emphasis on residential building. And, sewer and water projects along with highway work are projected to keep registers ringing in the upper Midwest and Plains states. And, in the far West, an increase in residential housing starts is expected to boost construction spending.

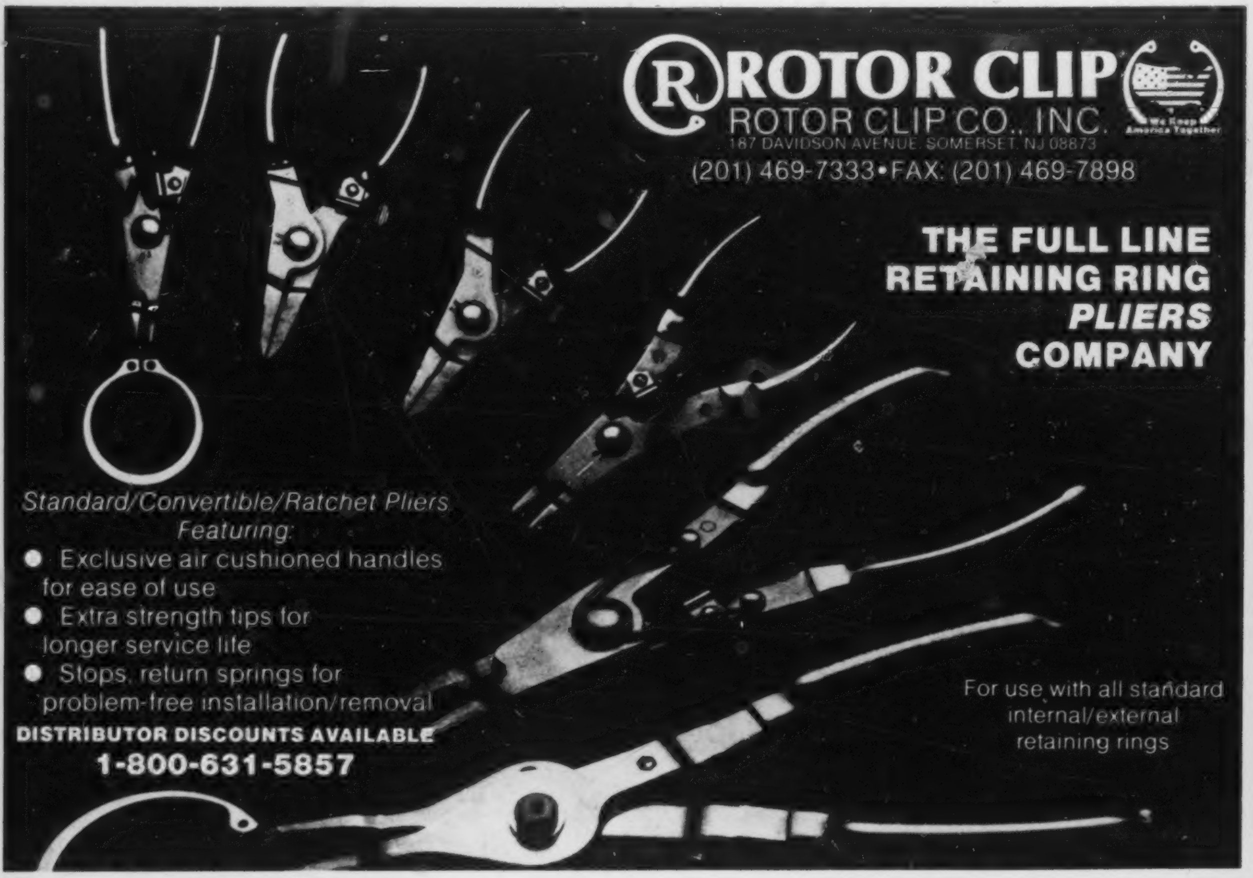
Furthermore, in areas where most construction is static or in a decline, highways and sewer and water projects are providing activity among construction interests. Sectors reflecting this situation include the mid-South, portions of the Pacific Northwest, Texas, and Oklahoma.

Of course, having a generally positive market in which to sell is only part of the profitability challenge. Today, as always, maintaining the proper merchandise mix and offering appropriate levels of customer service are also critical to success.

For example, according to a recent survey from the Specialty Tools & Fasteners Distributors Assn. (STAFDA), the construction industry remains the prime sales focus of its members. Indeed, while all participating firms derived 13% of sales volume from building and residential contractors, the highest profit concerns earned 13.3%.

Likewise, plumbing contractors produced 8.7% of sales for all STAFDA firms surveyed but 10% for those with the strongest bottom line. And roofing, sheet metal and air conditioning contractors accounted for 6.3% of sales for all reporting firms but 7% for the top profit shops.

In one intriguing development, while electrical contractors accounted for the same 9% of sales in all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firms as the most profitable concerns, and masonry contracting (3.5% vs. 3.3%) and general contractors (16.2% vs. 16.1%) were almost equally constant, there was one truly notable differential. While industrial customers accounted for 17.5% of sales for all survey-reporting companies, that group contributed just 11.5% to those distributorships with the largest margin of profit.

Interestingly, the STAFDA survey shows a slightly enhanced concentration upon power tools in the comparative product mixes between all those reporting and the most profitable firms.

The high-profit firms paced their stock with 19.8% of sales accounted for by portable tools and accessories vs. 19.2% for all firms; 11.9% of sales from power nailers/staplers and accessories vs. 10%; 7.1% vs. 6% for powder-actuated tools and accessories; and 5.9% vs. 5.4% for sales of hand tools. The only downside tool differentials were 2.7% for stationary tool sales by all firms reporting vs. 1.5% for the most profitable; and 3.2% vs. 2.5% of sales generated by air/hydraulic tools.

What all this means is that STAFDA members have every reason to assume that more profitable quarters lie ahead. The second quarter of 1987 marked the 19th consecutive quarter in which STAFDA distributors posted sales gains over the previous year's similar time frame. However, sales were reported down in the South Central and Rocky Mountain regions, both of which are tied to energy supplies.

But, in general, prospects are good, both today and into the future. And, according to a study from Frost & Sullivan, Inc., the decade-embracing years of 1980 and 1990 will show a virtual doubling of sales of power tools to the construction industry. This will include rises in the electrical ($218 million to $479 million), pneumatic ($29 million to $55 million) and powder-actuated tools ($14 million to $29 million) sectors.

Therefore, even while acknowledging the quixotic nature of the building business, these figures seem to anticipate a strong year for distributors who sell to America's construction industry. ☐

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# The Best Sellers

*The construction market has been called everything from a hornet's nest to a gold mine. It can be either depending on how you define your local economy.*

How do you build an inventory of best sellers? It depends on how well you've gauged your market and how well you're tapping its potential. The stocking process is difficult but it can be well worth the effort when it generates a long list of best sellers.

You've got to ask yourself a hundred and one questions, these among others:

Are you in an essentially industrial marketplace or does it have more of a downtown commercial character? Are they building new homes in and around your territory or are you in another industrial or oil-dependent Houston, the new foreclosure center of America? Is new industry moving in? Is local industry revving up again? If you're close enough to a well-traveled road or highway, do you want to attract passers-by with a huge sign?

Are you prepared to invest in an ongoing, pinpointed, power-packed promotional campaign of advertising, direct mail, catalogs, and telemarketing? Do you know who your customers are, where the greatest sales potential exists and where it will be six months from now? Do you keep an eye on what the experts are saying about the future as it relates to construction? Are your salespeople properly trained and kept informed? Are you prepared with all of the value-added services that will give you an edge over your most

## Where the $$$ are

% Of Total Annual Sales

| Sales by Product Category | For All Responding Firms | For Most Profitable 25% of Respondents | For Firms With Total Annual Sales of: $1-$2 million | $2-$4 million | over $4 million |
|---|---|---|---|---|---|
| Adhesives | 1.7% | 1.0% | 1.6% | 1.5% | 1.7% |
| Air/Hydraulic Tools | 3.2 | 2.5 | 2.6 | 3.8 | 3.5 |
| Anchors | 7.7 | 7.8 | 7.9 | 8.2 | 5.9 |
| Cords/Cables | 1.6 | 1.3 | 1.5 | 1.8 | 1.5 |
| Diamond Products | 2.8 | 2.0 | 2.6 | 4.4 | 1.8 |
| Gas Engine Equipment | 2.2 | 1.6 | 2.1 | 2.2 | 2.0 |
| Hand Tools | 5.4 | 5.9 | 8.8 | 5.1 | 4.5 |
| Hangers/Struts/Channel | 2.4 | 1.7 | 2.5 | 2.6 | 3.9 |
| Lifting Equipment | 1.1 | 1.0 | 0.8 | 0.8 | 2.6 |
| Lubes & Chemicals | 0.8 | 0.8 | 0.5 | 1.4 | 1.0 |
| Pipe Tools | 2.3 | 4.3 | 1.3 | 3.4 | 3.0 |
| Portable Electric Tools | 19.2 | 19.8 | 21.3 | 18.2 | 15.9 |
| Powder-Actuated Tools | 6.0 | 7.1 | 6.0 | 6.1 | 3.5 |
| Power Nailers/Staplers | 10.0 | 11.9 | 9.6 | 8.5 | 8.8 |
| Safety Equipment | 1.3 | 0.9 | 1.0 | 1.6 | 1.7 |
| Scaffolds & Ladders | 3.0 | 2.0 | 2.5 | 2.0 | 3.3 |
| Stationary Tools | 2.7 | 1.5 | 2.1 | 2.3 | 1.6 |
| Threaded Fasteners | 9.5 | 14.1 | 10.4 | 7.4 | 12.0 |
| Toolboxes/Bins | 2.0 | 2.3 | 2.2 | 1.5 | 2.6 |
| Other | 15.1 | 10.5 | 12.7 | 17.2 | 19.2 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Source:** Specialty Tools & Fasteners Distributors Assn.

### Where the $$$ are

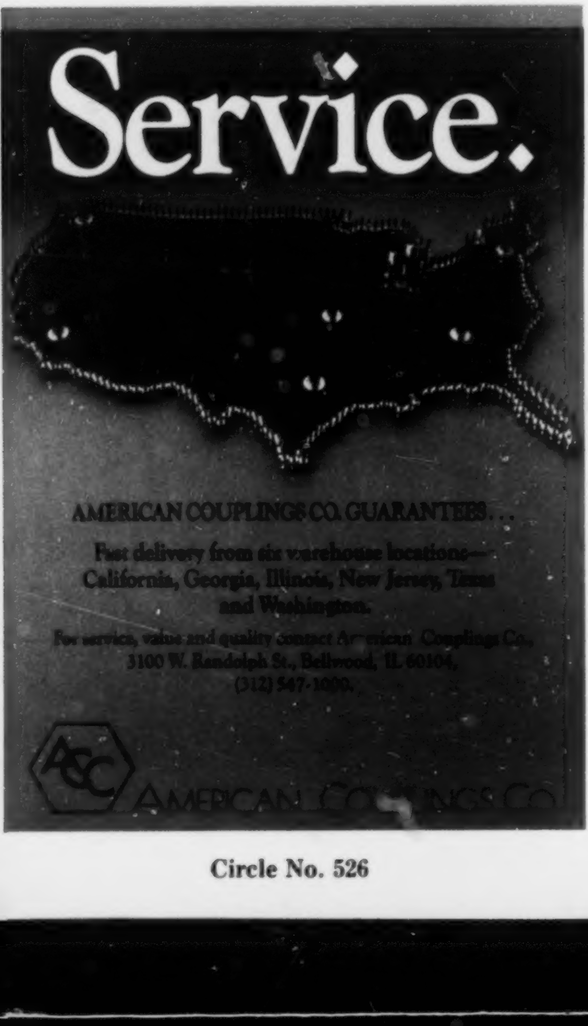
| % Of Total Annual Sales | | | | | |
|---|---|---|---|---|---|
| | | | For Firms With Total Annual Sales of: | | |
| Sales by Customer Type | For All Responding Firms | For Most Profitable 25% of Respondents | $1-$2 million | $2-$4 million | over $4 million |
| Building/Residential Contractors | 13.0% | 13.3% | 12.8% | 14.5% | 7.7% |
| Drywall Contractors | 5.0 | 4.1 | 7.8 | 4.1 | 5.3 |
| Electrical Contractors | 9.0 | 9.0 | 7.4 | 12.0 | 11.7 |
| General Contractors | 16.2 | 16.1 | 18.2 | 14.5 | 15.7 |
| Government Accounts | 3.3 | 2.2 | 3.2 | 3.3 | 3.5 |
| Industrial Customers | 17.5 | 11.5 | 13.1 | 16.3 | 20.0 |
| Masonry Contractors | 3.5 | 3.3 | 4.1 | 3.5 | 2.8 |
| Plumbing Contractors | 8.7 | 10.0 | 8.4 | 9.3 | 8.8 |
| Resale Accounts | 6.7 | 7.9 | 8.5 | 6.3 | 7.1 |
| Roofing, Sheet Metal | 6.3 | 7.0 | 6.2 | 6.2 | 4.7 |
| Service Trades | 3.1 | 5.3 | 3.4 | 3.1 | 2.5 |
| Utilities | 2.8 | 2.4 | 3.1 | 2.7 | 3.7 |
| Other | 4.9 | 7.9 | 3.8 | 4.2 | 6.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Source:** Specialty Tools & Fasteners Distributors Assn.

threatening competition?

Best sellers are born, not made. The informed distributor salesperson supported by ongoing factory and headquarters' presell promotion can weave an image of superiority for the product by a display of great pride in the product (and the brand, if warranted). This can be done by offering proof of its performance and by listing guarantees such as emergency services, repair or replacement, and others.

One note of warning. Take special care when overstocking on one or more best sellers at the request of a single contractor who assures you he will deplete the stock over the life of the project. While this can be profitable, it can also prove costly. Even the best-planned construction projects are full of variables, including the possibility of a midstream changeover from one product to another. ☐



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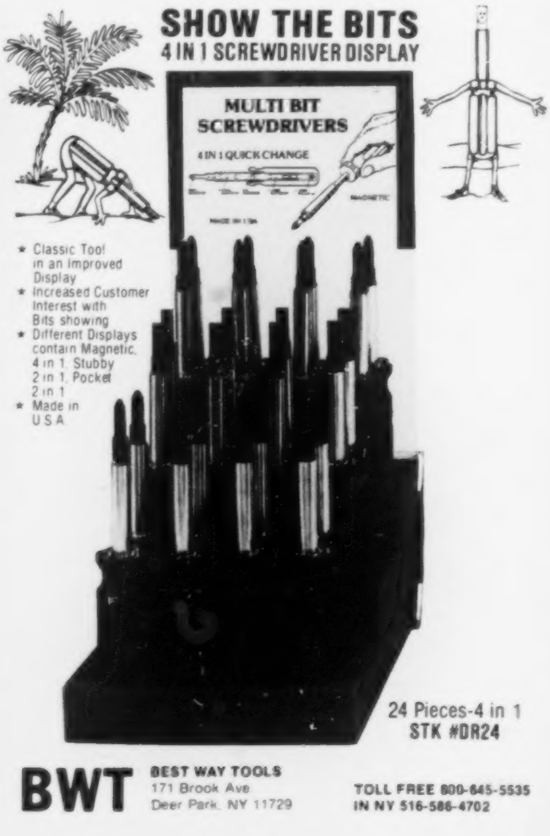

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# BUSINESS REPORT

BY WILLIAM C. WOOD

# Strong expansion continues

*Growth in heavy industry predicted*

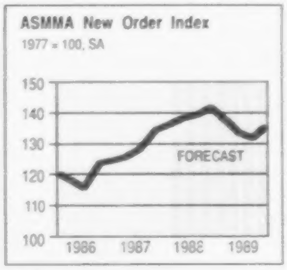
According to recently released GNP figures, the U.S. economy continued to expand at a strong rate after the stock market crash in October. The 4.2% fourth quarter growth rate was led by an increase in inventories, while also showing improvements in the trade situation and business investment.

Although these numbers represent a strong finish to 1987, many economists are concerned about how this strength will affect growth in 1988. The good news is that we are entering '88 with a strong economy, a slowing trade deficit and increased capital spending. The bad news is that consumer spending was down, and production of some goods will have to be cut back in order to work off excess inventories.

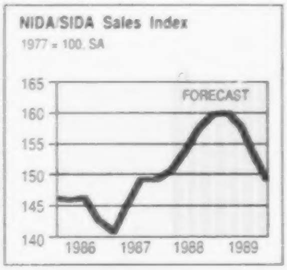
Despite these concerns about inventories and the aggregate growth rate, the expansion in heavy industry will continue to proceed at a healthy clip. The build-up in inventories for manufacturers and distributors in this sector is in response to the boom in exports and anticipated increases in capital spending. These factors will continue to provide market growth for at least the next six months.

This month's INDUSTRIAL DISTRIBUTION survey indicates that 33% of the distributors who responded plan to increase inventories in the next 6 months. This is up from 24% last month. The regions that are showing the largest number of expected inventory increases are the heavy industrial areas: Mid-Atlantic, North Central and South Central.

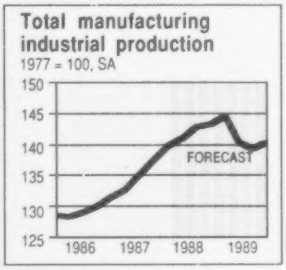
Although excess inventories and weakening markets will keep the auto manufacturers and other producers of consumer durable goods from experiencing substantial growth in 1988, manufacturers of machinery and equipment will continue to have expanding markets, which should provide enough momentum to keep the aggregate economy expanding. ☐


ASMMA New Order Index
1977 = 100, SA

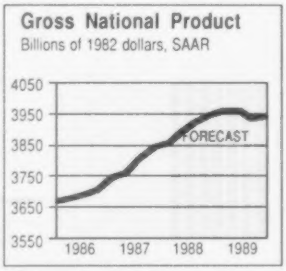
**Data source:** ASMMA
**Forecast source:** Cahners Economics


NIDA/SIDA Sales Index
1977 = 100, SA

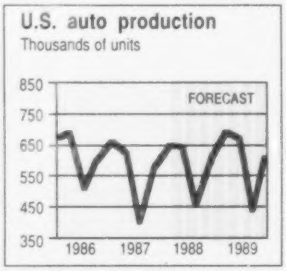
**Data source:** NIDA
**Forecast source:** Cahners Economics


Total manufacturing industrial production
1977 = 100, SA

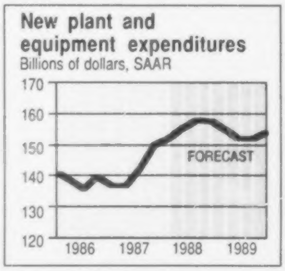
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics


Gross National Product
Billions of 1982 dollars, SAAR

**Data source:** Commerce Dept.
**Forecast source:** Cahners Economics


U.S. auto production
Thousands of units

**Data source:** Commerce Dept.
**Forecast source:** Cahners Economics


New plant and equipment expenditures
Billions of dollars, SAAR

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

| SALES BY REGIONS (% change) | SALES (%) first 11 mos. '87 vs. first 11 mos. '86 | | | RECEIVABLES (# of days) Nov. '87 vs. Nov. 86 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase Levels | Remain The Same | Decrease Levels |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | 13 | 17 | 7 | 38 | 36 | 44 | 35 | 38 | 44 | 22 | 56 | 22 |
| **MID-ADLANTIC** NY, NJ, PA | 2 | 0 | −23 | 43 | 51 | 12 | 47 | 49 | 15 | 56 | 33 | 11 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 4 | 8 | −2 | 54 | 44 | 36 | 44 | 44 | 37 | 12 | 50 | 38 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 6 | −2 | 1 | 36 | 46 | 50 | 37 | 45 | 50 | 45 | 39 | 16 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 79 | — | 0 | 60 | 0 | 31 | 90 | 0 | 32 | 60 | 20 | 20 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | −11 | 16 | 10 | 39 | 49 | 44 | 43 | 58 | 45 | 25 | 75 | 0 |
| **SOUTHWEST** AR, LA, OK, TX | — | −7 | — | — | 41 | 0 | — | 39 | 0 | 0 | 62 | 38 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | −3 | 5 | 4 | 34 | 42 | 35 | 46 | 41 | 32 | 0 | 67 | 33 |
| **PACIFIC** CA, OR, WA | 23 | 9 | 14 | 32 | 43 | 45 | 33 | 45 | 47 | 40 | 40 | 20 |
| **U.S. TOTALS** | 11 | 12 | 8 | 40 | 44 | 41 | 45 | 44 | 41 | 33 | 49 | 18 |

## SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Growth will peak this summer

*Muted trends mean timing will be critical*

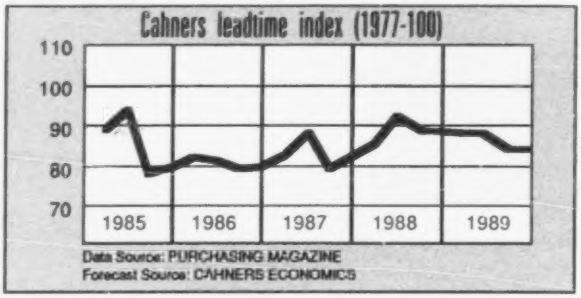
Peak growth rates for the Cahners Economics Early Warning Indicators were reached 18 to 24 months ago. According to conventional business cycle analysis, this means the peak growth rates for heavy industrial products will begin to be reached now through this summer.

Many industrial products are very cyclical—machinery and equipment are two good examples—and despite all the skepticism surrounding the current economic conditions, a strong upturn is in the cards.

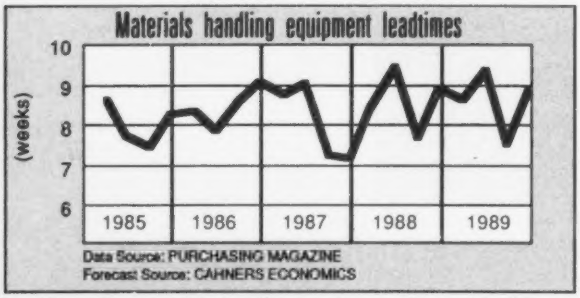
One thing to be aware of with this current upswing in the business cycle is that the growth rates will not be as large as they were during previous peaks. Because of this trend of muted cycles, timing the peaks does not leave much room for error. Once the peaks are reached this summer, growth rates will slow through the end of the year, possibly into the first quarter of 1989, and then the economy will flatten out. This means that now is the time to gear up for the last spurt of growth in this expansion.

This muted business also means the economy never "overheated," which kept prices for everything but petroleum products very stable. The inflation outlook for 1988 is for steady but moderate increases in prices. A weaker dollar will push prices for imported goods higher and will give domestic producers more room for price increases; however, these factors will be partially mitigated by a slowdown in consumer spending and increasing competition.

Energy prices, which figured prominently in last year's 3.6% rise in the Consumer Price Index, should be less volatile and increases will be smaller. The Producer Price Index for finished goods rose only 2.1% last year and will rise a moderate 3.0% in 1988. This moderate rise in producer prices will result in an increase of no more than 4.0% in consumer prices in 1988. ☐

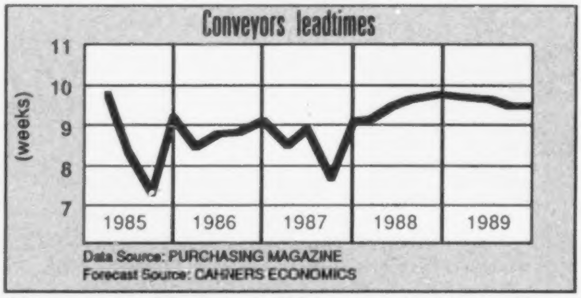

Cahners leadtime index (1977-100)

Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS


Materials handling equipment leadtimes

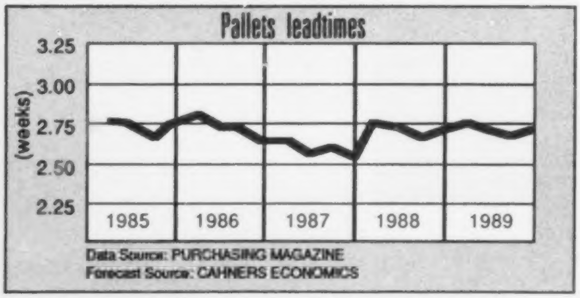
Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Leadtimes for materials handling equipment dropped in '87 to an average of just above 8 weeks. In '88 they will rise to an average of 8.6 weeks.**


Conveyors leadtimes

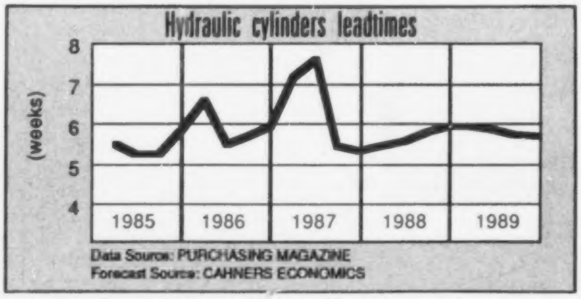
Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**After averaging 8.5 weeks in '87, conveyor leadtimes will stay above 9 weeks throughout '88.**


Pallets leadtimes

Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

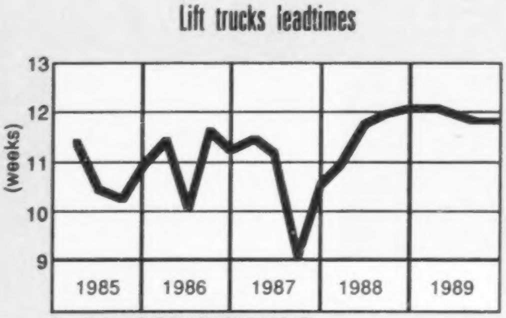
**Pallet leadtimes will stretch out slightly in '88; expect an average of 2.7 weeks.**


Hydraulic cylinders leadtimes

Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

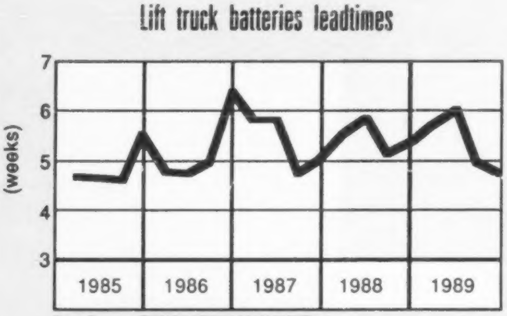
**Leadtimes for hydraulic cylinders will be close to 6 weeks for all of 1988.**

# SUPPLY OUTLOOK



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Increased demand for lift trucks will result in lags of 11 to 12 weeks for the remainder of the year.**



Data Source: PURCHASING MAGAZINE
Forecast Source: CAHNERS ECONOMICS

**Lift truck batteries leadtimes will follow the upward trend of lift trucks and will stretch out to average 5.4 weeks in '88.**

## Capital spending increases aid materials handling

This year will be one of strong recovery for manufacturers in the materials handling industry due to an anticipated 7.4% increase in capital spending on producers' durable equipment. Increases in industrial production will result in rising usage and demand for traditional products like bins, hand trucks and conveyors, but the majority of the growth will be in "systems" for factory and warehouse automation. The necessity to improve efficiency and competitiveness has resulted in advancements in the technology of automation for entire materials handling processes. ☐

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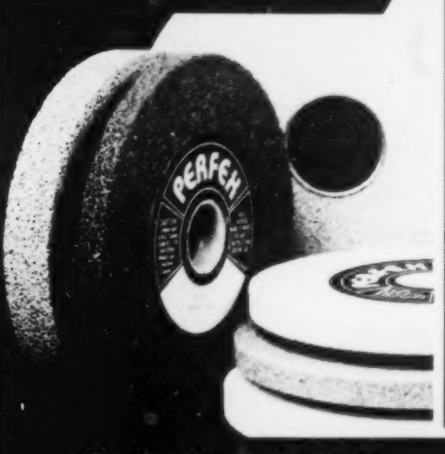

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APRIL 1988
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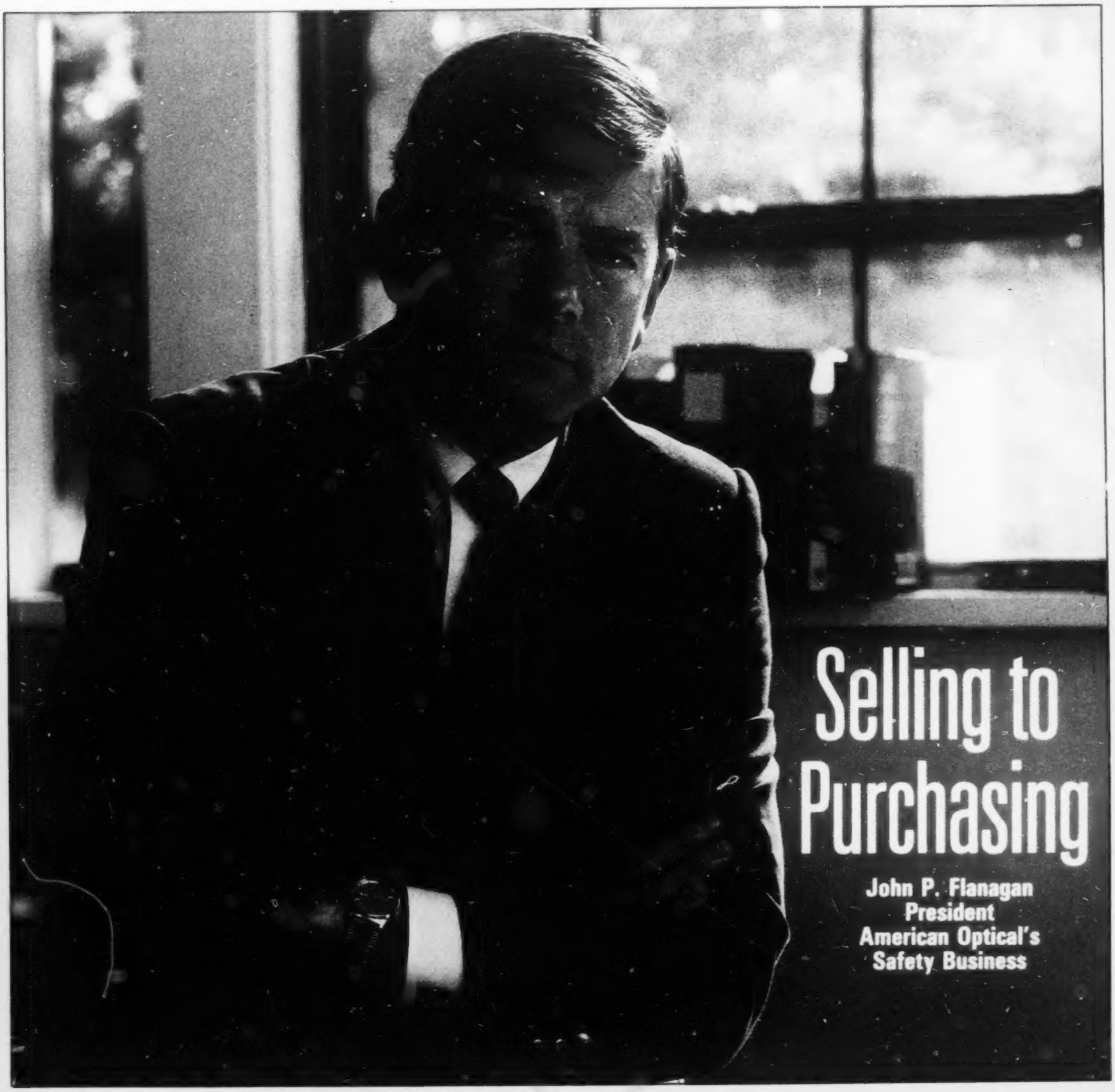
SPECIAL:

PARTNERS FOR PROFIT



## Selling to Purchasing

**John P. Flanagan**
**President**
**American Optical's**
**Safety Business**

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 4 APRIL 1988 A CAHNERS PUBLICATION

John P. Flanagan, president of American Optical's Safety Business, explains how purchasing departments are changing.

COVER STORY—MANAGEMENT

## 60 Selling to purchasing

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SPECIAL REPORT

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"Partnering" may be the only direct route to survival and growth for distributors,

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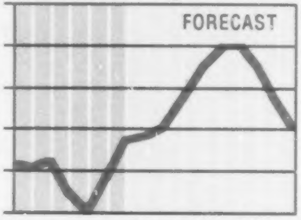

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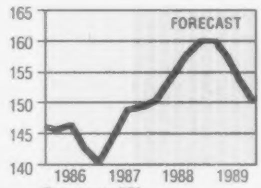
# BUSINESS REPORT

BY WILLIAM C. WOOD

# Economy maintains stability

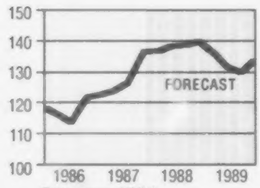
## *Inventory shifts in retail sector only*

**NIDA/SIDA Sales Index**
(1977 = 100, SA)



**Data source:** NIDA
**Forecast source:** Cahners Economics

**ASMMA New Order Index**
(1977 = 100, SA)



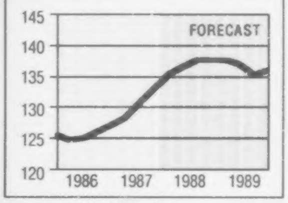
**Data source:** ASMMA
**Forecast source:** Cahners Economics

Business inventories rose about $60 billion (at an annual rate) in the fourth quarter of 1987, leading to speculation that a recession is imminent. A close look at the numbers, however, shows that the build-up has occurred almost entirely at the retail level. For an inventory recession to occur there would have to be an accumulation at all levels. And while the retail inventory/sales ratio has risen dramatically over the past year, the ratio for wholesalers has remained within acceptable bounds. Further, much of this retail accumulation has been in imported goods, so an inventory cutback will only slightly affect domestic production.

Housing starts is another area where the fearmongers have focused attention. First quarter starts have been averaging below 1.4 million, well below expectations. However, December through February are low volume months and are therefore susceptible to distortions. During the winter of 1986, starts averaged 1.94 million over the 3 months and finished the year at a 1.81 million average. Last winter, starts averaged 1.82 million over the winter and finished the year at 1.62 million. This year may see just the reverse with averages picking up later in the year.

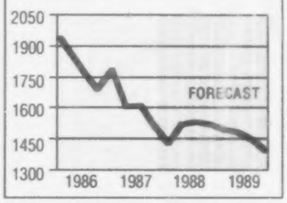
The results of the INDUSTRIAL DISTRIBUTION reader survey (shown below) indicate that total sales for distributors grew 6 to 12% in '87. These increases are consistent with data compiled by the Federal Reserve Board and various trade associations, and reflect current industrial expansion in the U.S. Based on results from this and previous surveys, the regions that consistently showed solid growth were New England, North Central, South Central, and Midwest. Although activity is expected to slow by year's end, nationwide sales will continue to expand, and all regions should have growth in '88.☐

**Total Industrial Production**
(1977 = 100)



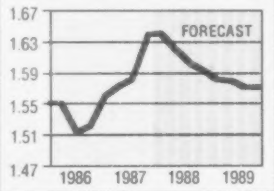
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Total Housing Starts**
(Thousands of units, SAAR)



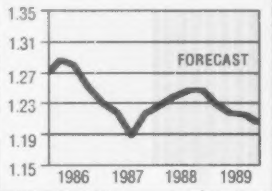
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Retail Trade Inventory to Sales Ratio**



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Wholesale Trade inventory to Sales Ratio**



**Data source:** Commerce Dept
**Forecast source:** Cahners Economics

## SALES BY REGIONS (% change)

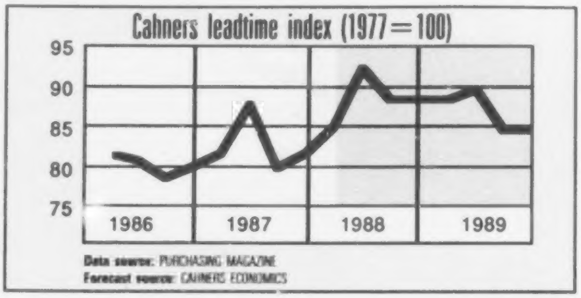
| | SALES (%) Year of '87 vs. Year of '86 | | | RECEIVABLES (# of days) Dec. '87 vs. Dec. 88 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase Levels | Remain The Same | Decrease Levels |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | 6 | 13 | 4 | 39 | 42 | 40 | 37 | 40 | 40 | 33 | 50 | 17 |
| **MID-ADLANTIC** NY, NJ, PA | −2 | 23 | 10 | 40 | 42 | 46 | 43 | 40 | 53 | 42 | 46 | 12 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 7 | 9 | 6 | 31 | 43 | 35 | 39 | 39 | 35 | 27 | 50 | 23 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 4 | 5 | 18 | 43 | 44 | 46 | 43 | 45 | 35 | 36 | 50 | 14 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 15 | 7 | 5 | — | 42 | 62 | — | 42 | 53 | 60 | 0 | 40 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | 8 | 14 | 16 | 39 | 43 | 39 | 44 | 43 | 41 | 50 | 50 | 0 |
| **SOUTHWEST** AR, LA, OK, TX | 14 | 4 | −3 | 40 | 53 | 45 | 40 | 37 | 47 | 30 | 62 | 8 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | 12 | 0 | −4 | 51 | 50 | 45 | 52 | 40 | 32 | 10 | 70 | 20 |
| **PACIFIC** CA, OR, WA | 18 | −4 | 11 | — | 47 | — | — | 44 | — | 45 | 37 | 18 |
| **U.S. TOTALS** | 10 | 12 | 6 | 44 | 44 | 41 | 44 | 42 | 41 | 35 | 50 | 15 |

# SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Supplies reflect expansion

## *Improved controls to minimize leadtimes*



**Data source:** PURCHASING MAGAZINE
**Forecast source:** CAHNERS ECONOMICS

After an annual decrease of 5.4% in 1986, the Cahners Leadtime Index rose 3.0% in 1987. This increase mirrors the recovery in U.S. manufacturing that started in the process industries in early '87, and worked its way through to the OEM industries by the end of the year.

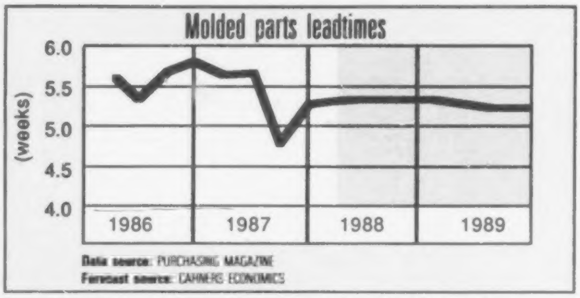
Although the expansion in the industrial sector may be slightly affected by the build-up of inventories reported in the 4Q87 GNP figures (see Business Report, this issue), it is expected to continue through the second quarter of '88. The second quarter is when leadtimes traditionally stretch out so they will peak in May or June.

It should be noted that, even at their peak, leadtimes will not be as long as they have been during previous expansions. Improved inventory and production controls, and the muted nature of this expansion, will keep leadtimes relatively short. The Cahners Leadtime Index will peak at 92-94, well below the base year figure (1977=100), and it is doubtful that it will ever reach 100 again.

Just as should be expected when demand pressures cause leadtimes to lengthen and capacity utilization rates to increase, prices are also beginning to rise.

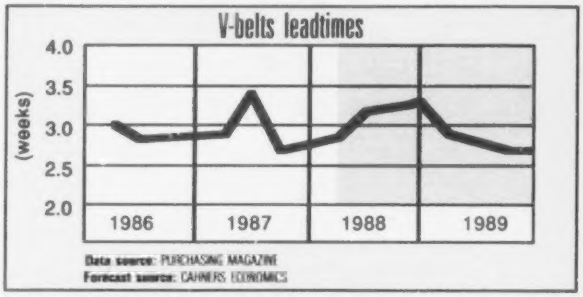
Construction materials and components rose 0.9%, which was somewhat more of an increase than had been experienced in recent months. This increase was mostly due to large increases in the price of nonferrous wire and cable and fabricated structural metal products.

In the components for manufacturing category, increases were noted for aircraft parts, bearings and metal valves. Electronic component prices were lower than in the month before. Capital equipment prices rose 0.2% for the second consecutive month, with the largest increases occurring in construction machinery and office furniture. ☐



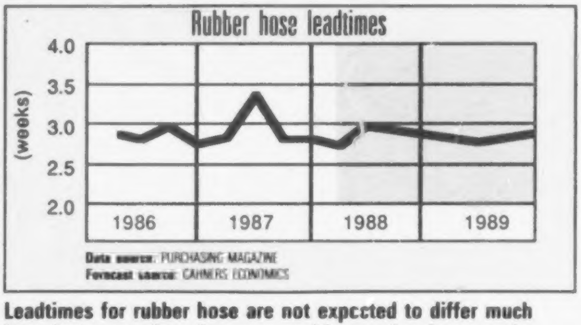
**Data source:** PURCHASING MAGAZINE
**Forecast source:** CAHNERS ECONOMICS

**Despite high levels of capacity utilization, leadtimes for molded plastic parts are expected to be very stable in '88.**



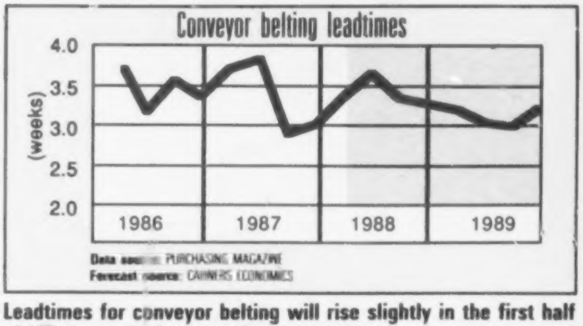
**Data source:** PURCHASING MAGAZINE
**Forecast source:** CAHNERS ECONOMICS

**Rubber V-belt leadtimes will rise above three weeks in the second quarter, and will stay there for the rest of the year.**



**Data source:** PURCHASING MAGAZINE
**Forecast source:** CAHNERS ECONOMICS

**Leadtimes for rubber hose are not expected to differ much from last year when they averaged just under three weeks.**



**Data source:** PURCHASING MAGAZINE
**Forecast source:** CAHNERS ECONOMICS

**Leadtimes for conveyor belting will rise slightly in the first half of '88 due to higher spending on machinery.**

5/4/88

C1850-4

MAY 1988
A CAHNERS PUBLICATION

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

## PREVIEW:

## 1988 Triple Industrial Supply Convention

100PK000 ( ) 070/ 89 333
JEANNE LONG 5 TE014C45 333
CONGRESSIONAL INFCRMATIO
SERVICE, INC.
4520 EAST-WEST HIGHWAY
BETHESDA MC 20814

INCOMING PRESIDENTS

James N. Mitchell
ASMMA, left

Tom C. Reid
SIDA, center

Daniel W. Judge
NIDA, right

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

Vol. 77, No. 5

MAY 1988

A CAHNERS PUBLICATION

Incoming presidents at the Triple: From left, ASSMA's James N. Mitchell, SIDA's Tom Reid and NIDA's Daniel Judge.

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As a sales manager, spend more time with your top achievers than with your marginal performers.

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Commitment needs to be evoked from people rather than instilled in them, says this consulting pro.

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A hose and accessories distributor profitably rebounds from the '82 recession.

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How a Pacific Coast CEO cut 60% off the time it takes his firm to process invoices.

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The benefits of planning for profit were discussed at SIDA's Dallas convention. ID was there.

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J. Fegely & Son uses telemarketing with such success that it now comprises 20% of company sales.

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Here's how canape, a training program based on interrelated steps, can lead to sales success.

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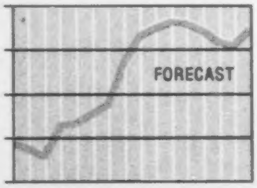

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A survey finds that 80% of business respondents consider the Federal government an intrusive factor in their operations.

▶

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

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A CAHNERS PUBLICATION

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Industrial Distribution
ID'S CONVENTION GUIDE

In Orlando, be sure to get your copy of ID's *Convention Guide*.

# ROI: BUY WISE— SELL SMART

*If your distributorship is not as profitable as it should be, then you're probably not a high performance manager. Here are some suggestions for getting your business into shape.*

**By John G.F. Bonnanzio, Associate Editor**

Return on investment (ROI) has been dropping for industrial distributors for the last several years. Although 1987 figures are not in, there's little reason to suspect that the 2-year decline will be reversed.

According to the "1987 Distributor Productivity Report" (DPR) prepared by both the National and Southern Industrial Distributors Assns., ROI has not been above 10% since 1981. The recommended goal is 15%; 1986 closed out at 6.4%.

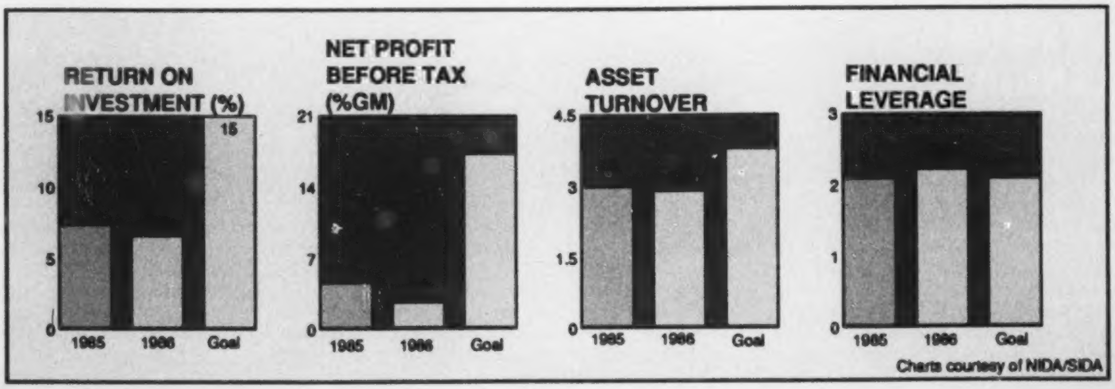
There are many factors influencing ROI (which is defined as after-tax profits as a percent of net worth), although three "broad" elements are most important.

1. Net profit as a percent of gross margin (NBT);
2. Asset turnover;
3. Financial leverage.

> 'Gross profits aren't worth a damn. They're superficial to me.'

In 1986 to 1985 comparisons, all of these measures failed to improve. In effect, DPR figures show distributors borrowing more from outside sources, rather than drawing on their own capital to finance growth. As will be demonstrated later, this is not a productive means of improving ROI.

Although some numbers drawn from ID's own Survey of Distributor Operations differ mildly from those in the DPR, trend lines all point in the same general direction: downwards. In the broadest measure of



Charts courtesy of NIDA/SIDA

all, which is sales, the DPR indicated that sales growth for 1986 was 0.2% while ID factored in inflation and marked down its number (in red) at -4.0%. Having adjusted sales with an inflation rate of only 3.25%, such a lackluster performance can only mean that distributors need to plug some holes in their operations.

> 'In today's non-inflationary environment, we have to do better handling costs.'

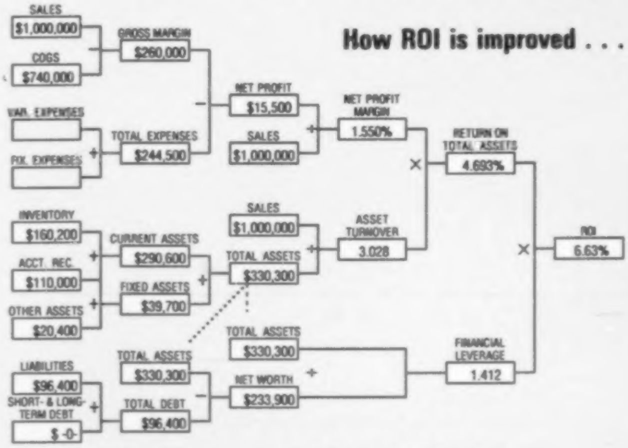
"If you want to know what dragged on ROI in'86," says Jim Leas of Distributor Productivity Reports Inc., "just take a look at net profits before tax (NBT)." As a contributing author of the association-sponsored report, Leas has firsthand knowledge of where low performance distributors are having problems and where the high performers excel. The underlying message, he says, is this: to obtain a higher before-tax ROI (BTROI), NBT as a percent of gross margin must be improved. "This can only be accomplished," finds the report, "by lowering operating and interest expense and/or increased gross margin dollars."

In 1986, distributors also failed to improve on asset turnover. This measure, which should not be confused with inventory turnover or stock turns (which did improve), measures a company's LIFO reserves and total average assets compared to its overall sales. This figure is important because the more a company can increase sales from its asset base, the greater its profitability. According to the DPR, this ratio fell from 3.0 in 1985 to 2.9 in 1986. Assuming that ID figures are correct, there is probably one reason for this slight drop, and that would be declining sales. In order to push asset turnover ratios downward, ultimately one of two scenarios must occur. First, total assets (including inventory and accounts receivables) must rise faster than sales or, second, a decline in sales must be greater than a drop in assets.

Based on figures from ID's survey, declining sales were at fault for lower asset turnover. Average monthly inventories for general line distributors fell 5.3% from 1985 to 1986, as did the year-end value of receivables and the number of days outstanding for collections. In light of these improvements (although relatively slight), and the subsequent decline in sales, asset turnover continued its two-year decline.

## Financial model of an industrial distributor

**How ROI is improved . . .**

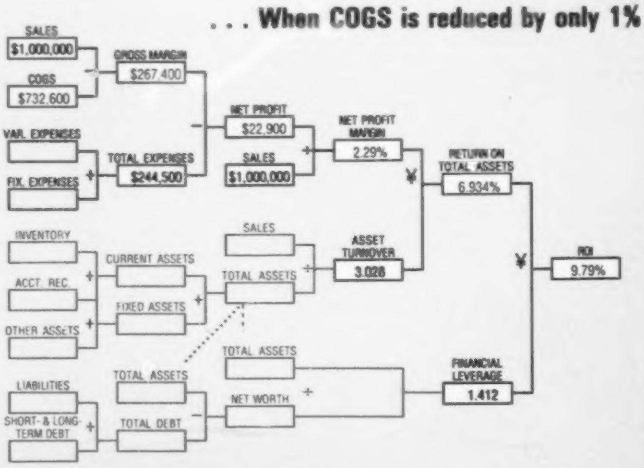

SALES
$1,000,000
COGS
$740,000
GROSS MARGIN
$260,000
VAR. EXPENSES
FIX. EXPENSES
+
TOTAL EXPENSES
$244,500
−
NET PROFIT
$15,500
SALES
$1,000,000
÷
NET PROFIT MARGIN
1.550%
×
RETURN ON TOTAL ASSETS
4.693%
INVENTORY
$160,200
ACCT. REC.
$110,000
OTHER ASSETS
$20,400
CURRENT ASSETS
$290,600
FIXED ASSETS
$39,700
TOTAL ASSETS
$330,300
SALES
$1,000,000
ASSET TURNOVER
3.028
×
ROI
6.63%
TOTAL ASSETS
$330,300
LIABILITIES
$96,400
SHORT- & LONG-TERM DEBT
$ -0-
TOTAL ASSETS
$330,300
TOTAL DEBT
$96,400
NET WORTH
$233,900
FINANCIAL LEVERAGE
1.412

Model 1. **Changes to a company's balance sheet are best measured in terms of ROI.**

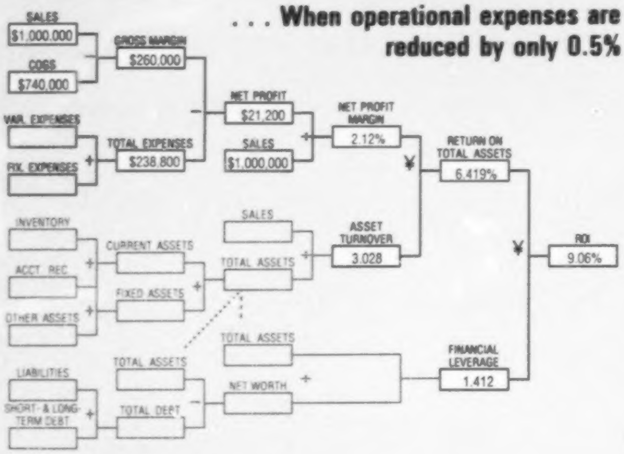
The third major factor affecting ROI is the measure of a company's financial leverage. Financial leverage is the ratio of a company's total assets to its net worth (*see **Model 6***). A higher figure often indicates the use of more debt financing. Conversely, a lower number suggests greater outside financing. One means of improving BTROI is increasing leverage. The DPR found that it would take a leverage of 7.8 for the typical distributor to bring BTROI up to recommended goals. The average distributor has financial leverage of 2.2.

In addressing the issue of borrowing, the report advises that distributors not borrow at a rate in excess of their total return on assets (TROA). This is important because it indicates how much is earned on that which is invested in assets. It also measures a business' ability to earn a profit without regard to the interest it pays. Interestingly, only 28% of study participants had a TROA in excess of the average prime rate of 8.5%. However, the study strongly advises that "firms should not borrow at a rate in excess of their TROA, since they cannot earn a rate of return equal to the rate at which they borrow these funds." Greater financial leverage is valuable to a company, but not too

**. . . When COGS is reduced by only 1%**


SALES
$1,000,000
COGS
$732,600
GROSS MARGIN
$267,400
VAR. EXPENSES
FIX. EXPENSES
+
TOTAL EXPENSES
$244,500
−
NET PROFIT
$22,900
SALES
$1,000,000
÷
NET PROFIT MARGIN
2.29%
¥
RETURN ON TOTAL ASSETS
6.934%
INVENTORY
ACCT. REC.
OTHER ASSETS
CURRENT ASSETS
FIXED ASSETS
TOTAL ASSETS
SALES
ASSET TURNOVER
3.028
¥
ROI
9.79%
TOTAL ASSETS
LIABILITIES
SHORT- & LONG-TERM DEBT
TOTAL ASSETS
TOTAL DEBT
NET WORTH
FINANCIAL LEVERAGE
1.412

Model 2. **When the cost of goods and services is reduced, ROI improves most dramatically.**


. . . When operational expenses are reduced by only 0.5%
SALES
$1,000,000
COGS
$740,000
GROSS MARGIN
$260,000
VAR. EXPENSES
FIX. EXPENSES
TOTAL EXPENSES
$238,800
NET PROFIT
$21,200
SALES
$1,000,000
NET PROFIT MARGIN
2.12%
RETURN ON TOTAL ASSETS
6.419%
INVENTORY
ACCT. REC.
OTHER ASSETS
CURRENT ASSETS
FIXED ASSETS
SALES
TOTAL ASSETS
ASSET TURNOVER
3.028
ROI
9.06%
LIABILITIES
SHORT- & LONG-TERM DEBT
TOTAL ASSETS
TOTAL DEBT
TOTAL ASSETS
NET WORTH
FINANCIAL LEVERAGE
1.412

Model 3. **Even a minimal reduction in expenses leads to vastly enhanced profits.**

much. The report goes on to say that in spite of this, 100% of the distributors in the survey borrowed money and, again, only 28% could squeeze a profit from these borrowings.

ROI generates additional profit for either dividends or internal expansion. Without a strong ROI, banks are not as likely to loan money and investors would be hesitant to buy equity. As ROI measures management's ability to create profit on investment, a distributor cannot afford to treat the number as an abstract accounting figure.

The purpose of these models is to demonstrate how various forces impact a distributor's ROI. By examining each of the six, it quickly becomes obvious as to which measures a distributor should employ to effect changes in ROI. Since some goals would be easier to achieve than others, however, the real value of this exercise is to demonstrate where it makes the most sense to concentrate your efforts to improve ROI.

While these models are not meant to mirror a typical distributor, every attempt has been made to approximate the financial profile of a business with an ROI of around 6%. As every industrial distributor is distinct as to product lines, geography and markets served, your company's numbers are likely to differ. Because of this and the fact that accounting measures and taxes also differ widely, variable and fixed expenses have been intentionally left blank. Total expenses, which are most critical numbers, have been provided.

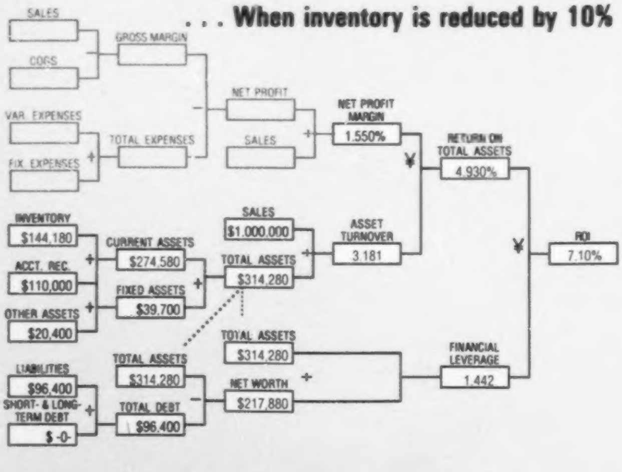
First, an explanation of ***Model 1.*** In this example, $1 million in sales was chosen for ease in estimating margins and percentages. The Cost of Goods and Services (COGS) were also approximated to $740,000. On the asset side, total assets were rounded to roughly one-third of sales, or $330,300. Financial leverage is determined by dividing total assets ($330,300) by net worth. When total assets are divided by net worth ($233,900), the resulting financial leverage is 1.412. Return on total assets (2.210%), multiplied by asset turnover (3.028), multiplied by financial leverage (1.412) resulted in3.12%ROI.

Should you study only one of these six models, take a careful look at ***Model 2.*** More than anything else, the cost of goods and services has the greatest potential impact for improving ROI. As demonstrated, when COGS is reduced a mere 1%, net profits soar from $15,500 to $22,900. Further, ROI is improved by 30%, in this case increasing to 9.79%.

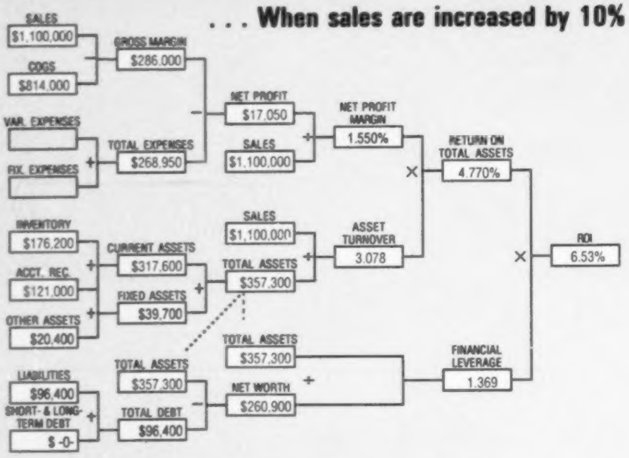
> **'We put our outside salesmen into profit centers. So we charged them six bucks for every calendar we gave them.'**

Decreasing COGS by 1% is a lot easier said than done, although this information helps direct distributors' attention. Better profit margins can come from improving on product mix, as well as enhancing marketing of your most profitable lines. Other efforts should include concentrating sales efforts on your most profitable customers. "If I knew what the net profit dollars were on every sell that I made in this company," says Joe Misiura of SMS Supply Co., "I would know where to drive products and where to back away from them." Such information, adds the president and CEO of the Chicago-based company, would help in "telling the salesmen where not to push, where to push, where not to pay them, and where to pay."

Before the advent of the computer, making such sales determinations was a virtual impossibility. In fact, if your business is not computerized, it's probably an idea you should forget. But most distributors are computerized, and software can be written to help with such time-consuming determinations.


. . . When inventory is reduced by 10%
SALES
COGS
GROSS MARGIN
VAR. EXPENSES
FIX. EXPENSES
TOTAL EXPENSES
NET PROFIT
SALES
NET PROFIT MARGIN
1.550%
RETURN ON TOTAL ASSETS
4.930%
INVENTORY
$144,180
ACCT. REC.
$110,000
OTHER ASSETS
$20,400
CURRENT ASSETS
$274,580
FIXED ASSETS
$39,700
SALES
$1,000,000
TOTAL ASSETS
$314,280
ASSET TURNOVER
3.181
ROI
7.10%
LIABILITIES
$96,400
SHORT- & LONG-TERM DEBT
$ -0-
TOTAL ASSETS
$314,280
TOTAL DEBT
$96,400
TOTAL ASSETS
$314,280
NET WORTH
$217,880
FINANCIAL LEVERAGE
1.442

Model 4. **Particularly when inventory is financed, overly stocked shelves drag on earnings performance.**


. . . When sales are increased by 10%
SALES
$1,100,000
COGS
$814,000
GROSS MARGIN
$286,000
VAR. EXPENSES
FIX. EXPENSES
TOTAL EXPENSES
$268,950
NET PROFIT
$17,050
SALES
$1,100,000
NET PROFIT MARGIN
1.550%
RETURN ON TOTAL ASSETS
4.770%
INVENTORY
$176,200
ACCT. REC.
$121,000
OTHER ASSETS
$20,400
CURRENT ASSETS
$317,600
FIXED ASSETS
$39,700
SALES
$1,100,000
TOTAL ASSETS
$357,300
ASSET TURNOVER
3.078
ROI
6.53%
TOTAL ASSETS
$357,300
FINANCIAL LEVERAGE
1.369
LIABILITIES
$96,400
SHORT- & LONG-TERM DEBT
$ -0-
TOTAL ASSETS
$357,300
TOTAL DEBT
$96,400
NET WORTH
$260,900

Model 5. **Higher sales do not translate into higher profits when COGS and expenses are not kept in check.**

In ***Model 3***, the effects of reducing total expenses by 0.5% are shown. Here, too, the result is remarkable. Net profit jumps to $21,200, net profit margins increase to 2.12% and ROI is pushed up to 9.06%. For the high performance manager, there are several ways to decrease expenses without cutting payroll, the most obvious solution. First, examine the cost of deliveries. Many distributors charge for such services; perhaps minimum order charges should be considered. Second, take a hard look at order filling. Again, a number of software programs have the ability to determine picking order. An evaluation of warehouse layout and work patterns may also be needed.

> 'When you go to sell an item in December, you don't look at what you paid in January.'

Much thought is given to the need for eliminating excess inventory. As ***Model 4*** demonstrates, the net effect of decreasing shelf items a hefty 10% has a limited impact on ROI. However, when a company's debt is high, reduced inventory does enhance ROI. With inventory carrying costs moving perpetually higher and more distributors financing inventory through borrowing, businesses should make every attempt to identify slow moving items. Slow movers are not necessarily low margin items, so long as the proper markup finds its way to the invoice. Other approaches to keeping inventory from needlessly rising, suggests NIDA, are to reduce duplicate items and reexamine costs and profit contributions from broken package sales.

Joe Misiura of SMS Supply Co. approaches inventory from this perspective: "If inventory costs us 24% [when] being managed very well, then somewhere along the line you have to start charging the inventory to carrying costs. It's the only way you can really get a handle on your ROI."

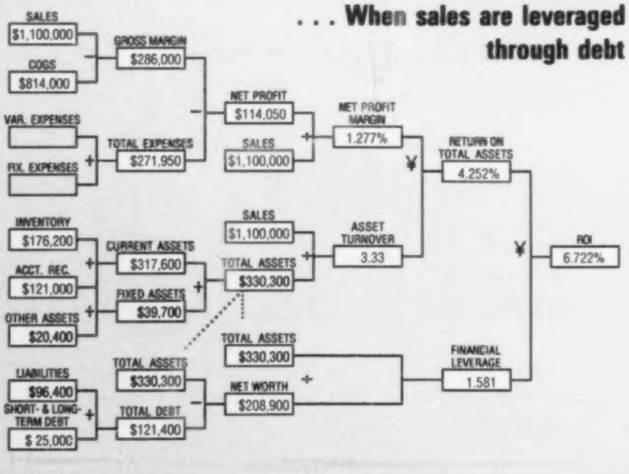
While many distributors think the best way to increase ROI is through increased sales, ***Model 5*** should help dispel this myth. More precisely, although higher sales can help ROI, higher sales also mean correspondingly higher sales costs (total expenses), higher inventory levels and higher receivables. Increasing sales volume without improvement to COGS, inventory or liabilities will do little to improve ROI. Everything has its cost, and improving ROI through sales is apparently a very expensive approach.

The final schematic, ***Model 6***, shows the effects of borrowing on ROI. As mentioned earlier, when debt exceeds total return on assets, problems occur. However, a limited amount of debt can improve both financial leverage and ROI. But here, too, the results are unimpressive. Financing growth (that is, increasing sales through use of short- or long-term debt) without tightening expenses and managerial control over COGS will have minimal impact on ROI.

For the distributor left bewildered by this avalanche of percentages and numbers, the lessons to heed can be summarized simply:

1. Excessive payroll is the largest cause of poor profits;
2. Don't depend on increased sales to solve a profit problem;
3. Increase gross margin dollars by keeping non-payroll and interest expenses in check;
4. Decrease the funds invested in receivables, inventory and fixed assets. Be sure to buy wise and sell smart. The effect of this effort will be a lowering of interest expense and an increase to gross margin return.

Distribution will always be a people business. Whatever you attempt to accomplish, be mindful of your customers and employees, as both will affect your profits. ☐

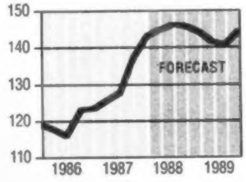

. . . When sales are leveraged through debt
SALES
$1,100,000
COGS
$814,000
GROSS MARGIN
$286,000
VAR. EXPENSES
FIX. EXPENSES
TOTAL EXPENSES
$271,950
NET PROFIT
$114,050
SALES
$1,100,000
NET PROFIT MARGIN
1.277%
RETURN ON TOTAL ASSETS
4.252%
INVENTORY
$176,200
ACCT. REC.
$121,000
OTHER ASSETS
$20,400
CURRENT ASSETS
$317,600
FIXED ASSETS
$39,700
SALES
$1,100,000
TOTAL ASSETS
$330,300
ASSET TURNOVER
3.33
ROI
6.722%
TOTAL ASSETS
$330,300
FINANCIAL LEVERAGE
1.581
LIABILITIES
$96,400
SHORT- & LONG-TERM DEBT
$ 25,000
TOTAL ASSETS
$330,300
TOTAL DEBT
$121,400
NET WORTH
$208,900

Model 6. **Sales growth should not be pursued through debt when total return on assets exceeds total debt.**

# Industrial strength building

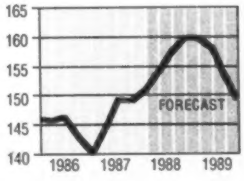
## *Cahners forecasts 5.3% growth in industrial output*

**ASMMA New Order Index**
(1977 = 100, SA)



**Data source:** ASMMA
**Forecast source:** Cahners Economics

**NIDA/SIDA Sales Index**
(1977 = 100, SA)



**Data source:** NIDA
**Forecast source:** Cahners Economics

For the past year and a half, Cahners Economics has been predicting that U.S. industry will carry the economic recovery forward in 1988. While the Cahners forecast for real GNP growth of 2.8% is somewhere in the middle of the forecasters' pack, their forecast for a 5.3% increase in industrial output in 1988 is most optimistic.

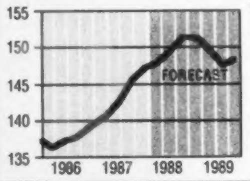
Cahners believes that a good industrial performance is likely this year for two reasons. First, renewed profit growth last year will result in increased purchases of equipment in 1988. Durable equipment purchases will peak this year at a level that is 65% higher than the level of spending in early 1983 when the current economic recovery began. Also, domestic industry will benefit from larger export markets because of the dollar devaluation.

High-tech industries (which include all electronics industries, synthetic materials and drugs) have fared better over the past few years than the smokestack industries (autos, mining, metals, and heavy equipment), and will continue to do so through 1988. Technology-driven industries have become the growth markets for U.S. manufacturers. High value-added products will have the biggest gains.

This difference between the high-tech and smokestack industries will not change substantially in the next few years; however, U.S. industrial demand is changing in other ways. In '85 and '86, defense and space drove industrial growth while output of business equipment and consumer durables was sluggish. In '87, a year of transition, growth in these three sectors was about the same—between 3.6 and 3.9%.

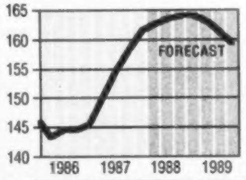
In '88 the scenario changes. Business equipment production will jump approximately 7%. Consumer durables output will be tempered by a slowdown in consumer spending and will grow a moderate 2.5%.☐

**OEM Industries**
**Industrial Production Index**



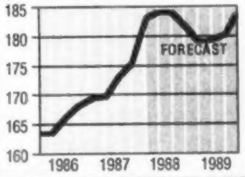
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Machinery Except Electrical**
**Industrial Production**



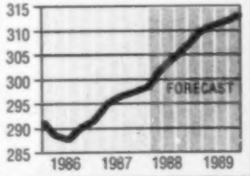
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Electrical Machinery**
**Industrial Production SIC 36**
(1977 = 100, SA)



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Producer Price Index**
**Finished Goods**
(1967 = 100, Unadj.)



**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

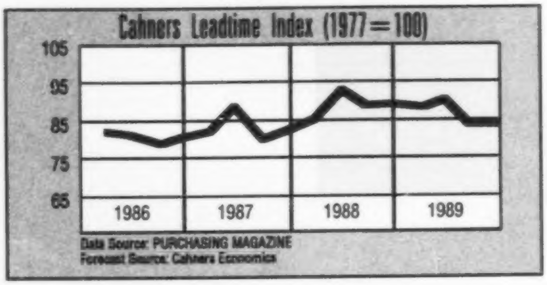
| SALES BY REGIONS (% change) | SALES (%) Year of '88 vs. Year of '87 | | | RECEIVABLES (# of days) Jan. '88 vs. Jan. 87 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Inc. | Remain The Same | Dec. |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | N/A | 0 | N/A | N/A | 38 | 45 | N/A | 40 | 45 | 20 | 80 | 0 |
| **MID-ADLANTIC** NY, NJ, PA | −3 | −8 | −29 | 47 | 48 | 72 | 42 | 55 | 52 | 26 | 52 | 22 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | −8 | 19 | 0 | 37 | 43 | 39 | 43 | 43 | 38 | 20 | 60 | 20 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 1 | 16 | 13 | 38 | 44 | 44 | 39 | 44 | 42 | 29 | 50 | 21 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 20 | 30 | 15 | 30 | 44 | 25 | 40 | 48 | 25 | 55 | 36 | 9 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | −8 | −22 | −14 | 38 | 44 | 30 | 41 | 42 | 45 | 27 | 64 | 9 |
| **SOUTHWEST** AR, LA, OK, TX | 1 | 16 | N/A | 32 | 43 | N/A | 33 | 40 | N/A | 28 | 36 | 36 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | −17 | 19 | −44 | 48 | 43 | 45 | 44 | 52 | 45 | 14 | 57 | 29 |
| **PACIFIC** CA, OR, WA | 28 | −42 | 13 | 47 | 51 | 46 | 47 | 54 | 45 | 35 | 35 | 30 |
| **U.S. TOTALS** | −5 | −17 | −3 | 42 | 45 | 42 | 42 | 47 | 40 | 30 | 50 | 20 |

# SUPPLY OUTLOOK

BY WILLIAM C. WOOD

# Greenspan monitoring leadtimes

*Strong chance of expansion continuing another year*



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

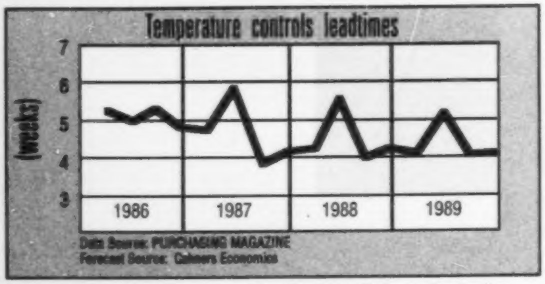
Federal Reserve Board Chairman Alan Greenspan recently told Congress' Joint Economic Committee that he focused on "leadtimes in the deliveries of production materials" as an early indicator of inflationary pressures. He warned that the economy could be getting closer to higher general inflation, but that business and labor "still seem to be exercising a considerable degree of restraint in their price- and wage-setting behavior."

Greenspan pointed out that the build-up in inventories that occurred in the fourth quarter of '87 is not resulting in cutbacks in production. He also added that deep cutbacks now appeared unlikely. "Consumer spending seems to be holding its own, export prospects remain favorable and capital goods orders have been strong. Overall, the chances appear relatively good for maintaining the current expansion through another year," said Greenspan.

The Cahners Leadtime Index fell 1.7% in March to 85.6. Longer leadtimes were reported for chemicals, rubber and plastic products, motors, and electronic parts. There was no change in the leads for machine tools, machinery components and paper.

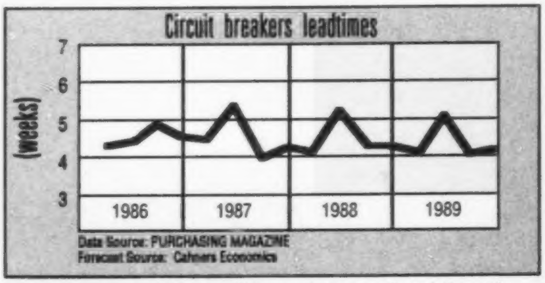
For the first quarter, the index was 4.6% higher than in the fourth quarter of '87 and was 4.4% higher than the first quarter '87 level. The index is projected to peak at a level of 92 during the second quarter. This peak will be considerably lower than the past peaks of 105.6 in February 1984 and 136.9 in February 1979.

The Producer Price Index for finished goods was down 0.2% in February. Prices for most industrial goods changed very little. Increases in price were reported for electric motors and generators, plumbing products, and furnace and refrigeration equipment. Declines took place for motor vehicle parts, abrasive products and industrial chemicals. ☐



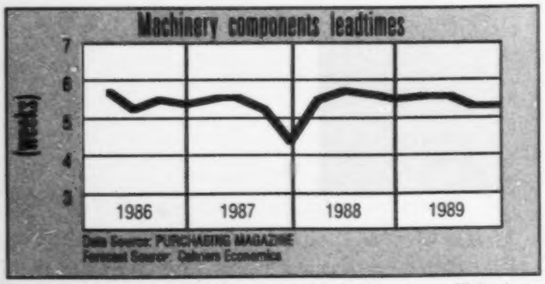
Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Leads for temperature controls will reach 5.5 weeks in the second quarter.**



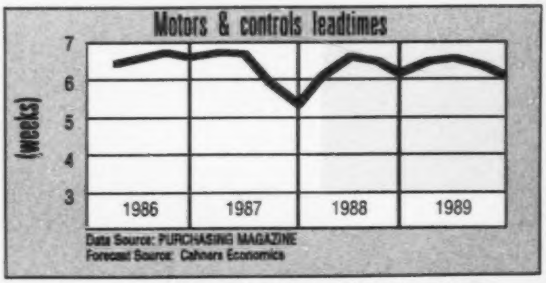
Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Circuit breaker leadtimes will hover between 4 and 5 weeks, showing little change from last year.**



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

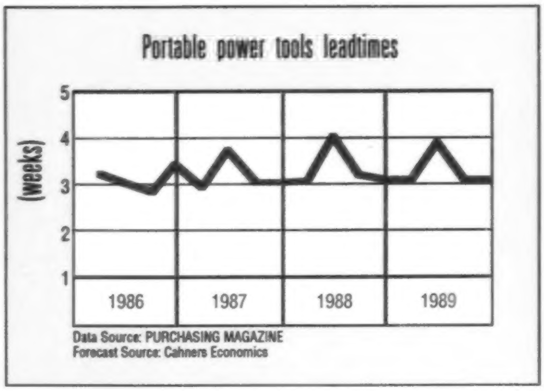
**Average leads for machinery components this year will be just over 5.5 weeks.**



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

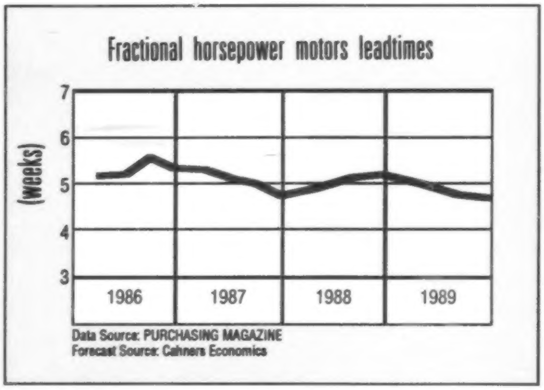
**Leads for motors and controls will stretch out in mid-year.**

# SUPPLY OUTLOOK



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Portable power tool leads will average 5% longer this year than in '87.**



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Demand for fractional horsepower motors will push leadtimes over 5 weeks in the second quarter.**

## Strong demand for electrical machinery/components

Although markets for machinery and advanced products have not expanded as rapidly as the markets for primary processors, the growth in production for these goods has been steady. Manufacturers of electrical machinery and electrical components have been recapturing domestic market share, and exports are improving. Capacity utilization in the electrical machinery industry was 76.6% in January and will peak in the third quarter. In '88, output of electrical and non-electrical machinery will expand between 6 and 7%.

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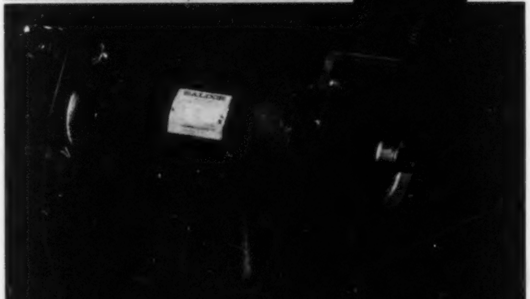

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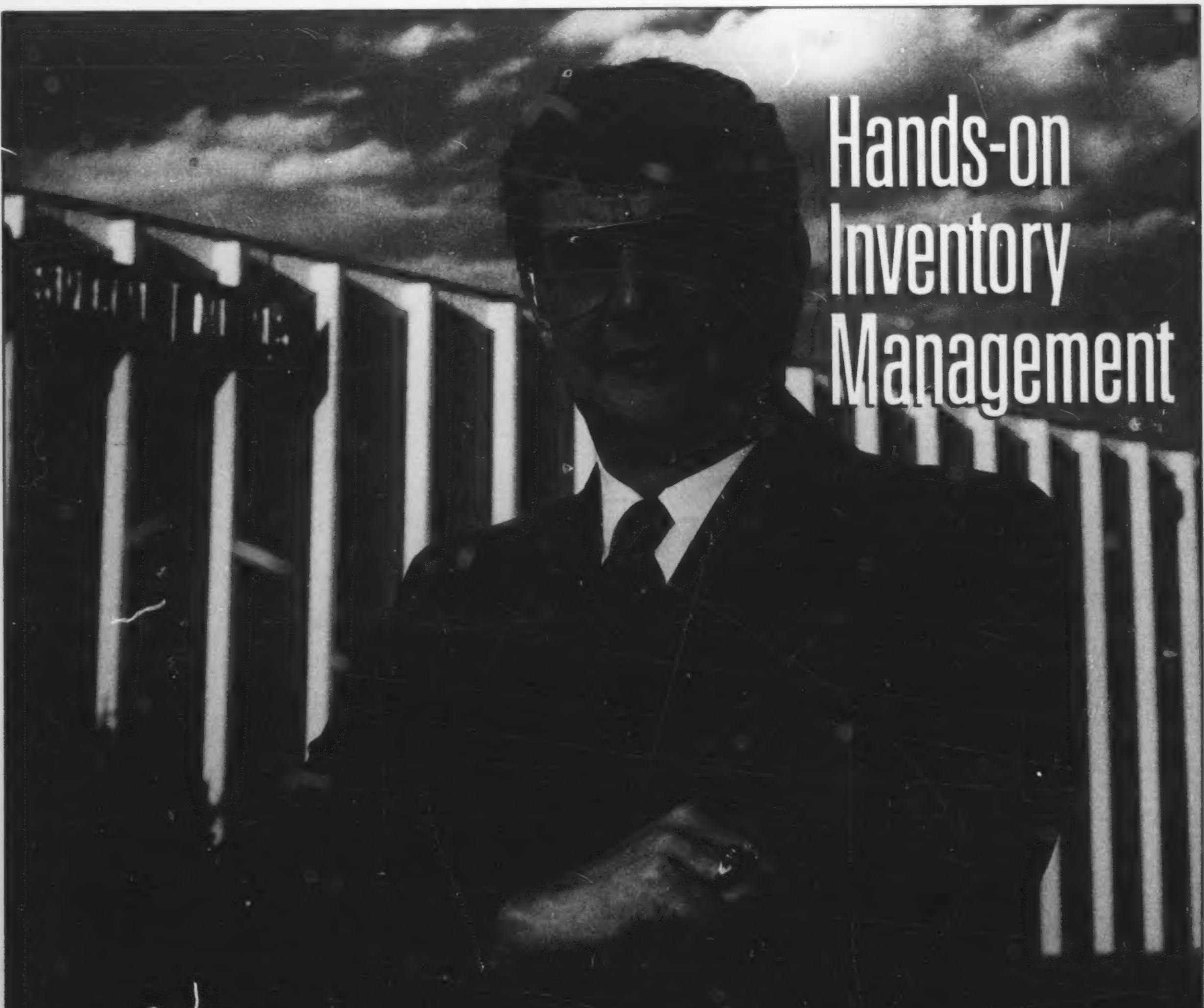
JUNE 1988
A CAHNERS PUBLICATION

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

**SPECIAL:**

## Review of Computing Choices



## Hands-on Inventory Management

R.B. Stoddard, President
Special-T-Metals Co.

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 6

JUNE 1988

A CAHNERS PUBLICATION

Bob Barrett

R.B. Stoddard, Special-T-Metals Co., describes how inventory management results in 95% service levels.

COVER STORY—INVENTORY MANAGEMENT

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How Special-T-Metals, a stainless steel fastener distributor, tracks a 35,000-item inventory, including nearly 12,000 imports with leadtimes of up to 9 months.

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ID reports on the first meeting of the newly formed United States Cutting Tool Institute.

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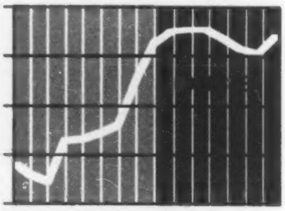

U.S. manufacturing seems to be a bit off balance.

**69 Supply Outlook**

Leadtimes to remain high. Index declines for second consecutive month.

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Meet manufacturer terminations head on.

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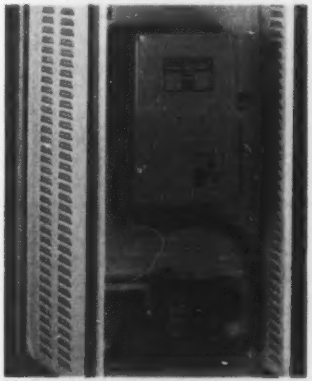


**64 Products for profit**

The newest products available from manufacturers.

# BUSINESS REPORT

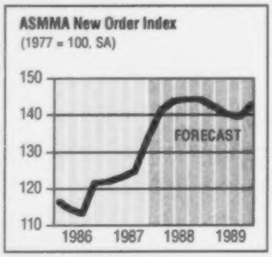
BY KRIS BLEDOWSKI

## Primary products lead expansion

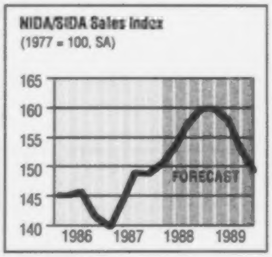
*But advance process industries will catch up*

U.S. manufacturing seems to be a bit off balance. While the cheap dollar stimulates exports of metals, paper, chemicals, rubber, and other raw materials, advance processors, which make autos, machinery, appliances, etc., are lagging behind. Primary producers are operating at over 88% of capacity, with paper leading the way at over 98%. Advance processors, on the other hand, are operating at only about 82% of capacity, below the high 85% level reached in late 1978.

The reason for this lies, in part, in export markets. The dollar has declined over 30% against a basket of major currencies since its 1985 peak; this should stimulate the demand for U.S. goods abroad. American manufacturers, however, are still having trouble selling foreigners on the quality of American products. Steel, paper and other primary materials run into few such problems.


**ASMMA New Order Index**
(1977 = 100, SA)

**Data source:** ASMMA
**Forecast source:** Cahners Economics

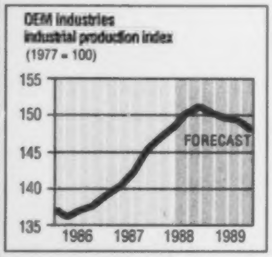

**NIDA/SIDA Sales Index**
(1977 = 100, SA)

**Data source:** NIDA
**Forecast source:** Cahners Economics

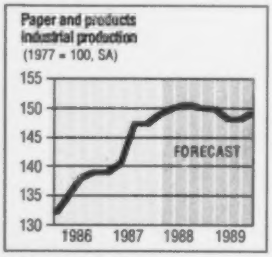
Another reason relates to the supply side. After the boom of the late '70s, the world economy was stuck with excess capacity for industrial materials in the early 1980s. This has led U.S. companies to stop investing in plants and machinery. In some cases capacity was reduced.

The question is whether the advance process industries can partake in the general business expansion. It seems that with the weak dollar to stay, U.S. manufacturers should regain some of their lost markets overseas.

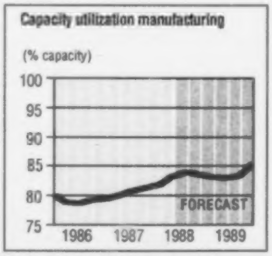
The only worry is of overheating when the primary product industries run out of production capacity. Even a moderate increase in the demand for primary products, such as steel and plastic for the auto and heavy machinery industries, can fuel inflation. So what may happen later this year is a situation in which advance processors have lots of orders but can't get the metals, chemicals and other materials to fill those orders. ☐


**OEM industries industrial production index**
(1977 = 100)

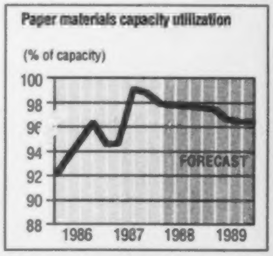
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics


**Paper and products industrial production**
(1977 = 100, SA)

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics


**Capacity utilization manufacturing**
(% capacity)

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics


**Paper materials capacity utilization**
(% of capacity)

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

| SALES BY REGIONS (% change) | SALES (%) February '88 vs. February '87 | | | RECEIVABLES (# of days) Feb. '88 vs. Feb. 87 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase Levels | Remain The Same | Decrease Levels |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | 10 | 5 | 18 | 59 | 39 | 42 | 70 | 41 | 42 | 40 | 50 | 10 |
| **MID-ADLANTIC** NY, NJ, PA | 12 | 21 | 105 | 46 | 45 | 51 | 51 | 52 | 48 | 52 | 36 | 12 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 11 | 36 | −17 | 45 | 60 | 32 | 59 | 59 | 34 | 46 | 31 | 23 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 16 | 16 | 27 | 31 | 41 | 44 | 29 | 39 | 47 | 57 | 34 | 9 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 17 | 31 | 18 | 40 | 40 | 41 | 40 | 43 | 40 | [illegible] | 37 | 14 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | 41 | 40 | 29 | 33 | 30 | 57 | 36 | 33 | 58 | 42 | 39 | 18 |
| **SOUTHWEST** AR, LA, OK, TX | 6 | 16 | 19 | 29 | 45 | 46 | 30 | 43 | 49 | [illegible] | 32 | [illegible] |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | 60 | 44 | 54 | 47 | 40 | 28 | 54 | 39 | 26 | 50 | 38 | 12 |
| **PACIFIC** CA, OR, WA | 5 | 49 | 34 | 41 | 36 | 37 | 41 | 38 | 37 | 44 | 44 | 11 |
| **U.S. TOTALS** | 17 | 28 | 37 | 41 | 42 | 45 | 43 | 43 | 45 | 46 | 38 | 16 |

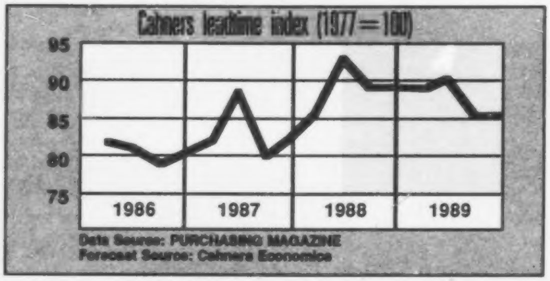
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Leadtimes to remain high

## *Forging industry leads the way*

The Cahners Leadtime Index dropped 2.3% in April compared with March, the second consecutive month of decline. A composite of 85 industrial leadtimes, the index is derived from exclusive data furnished by purchasing managers and agents for the nation's largest corporations. In spite of the monthly declines, leads were still 4.4% longer in the first quarter of '88 than in the same period last year. In fact, they are expected to stay high, about the value of 80 to 88, through the end of the year. This high leadtimes level is in response to generally high capacity utilization that is occuring in manufacturing industries.

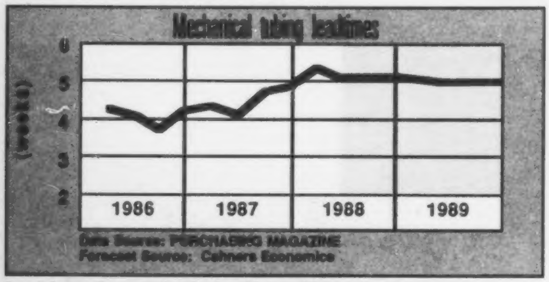


Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

Leadtimes for mechanical tubing, aluminum wire and cable, stainless bars and rods, as well as wire were all higher in the first quarter of '88 than in either the same period last year or the last quarter of '87. This reflects booming shipments and bookings in the forging industry. The latter were up by 15% in 1987 over 1986.

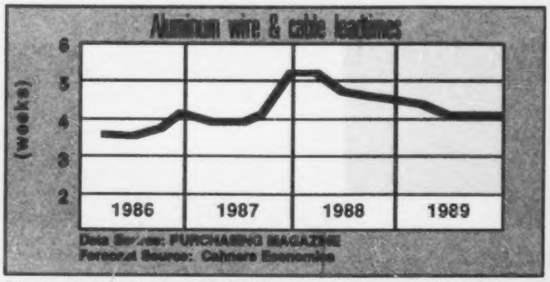
Growth in bookings of impression die forgings for March was even more impressive: up 19% from February and 24% from March '87. This was the highest monthly order booking figure since March 1980.

"In 1987 the U.S./Canadian forging industry appeared to have turned the corner toward achieving a comeback," says Forging Industry Assn. Executive Vice President R.W. Atkinson. "The value of the U.S. dollar has been virtually halved since 1985 when compared to the mark and the yen. During that same period labor costs in Germany and Japan have risen approximately 40%, while U.S. unit labor costs have been relatively stable . . . Also, many forging companies have shown they can ship more product with a significantly smaller workforce than five years ago . . . All these factors have contributed to a feeling of improved competitiveness and that better times are ahead." ☐



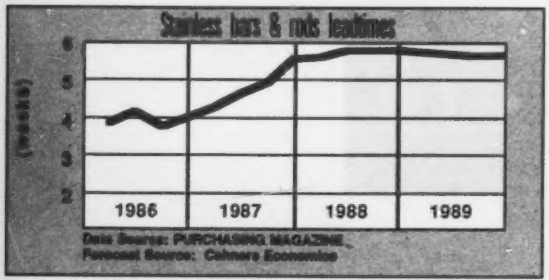
Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Leadtimes for mechanical tubing will be about 5 weeks throughout 1988, up more than 10% from a year ago.**



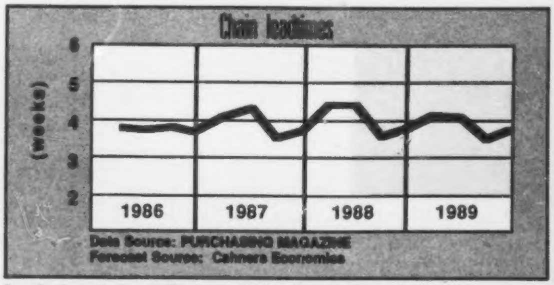
Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Aluminum wire and cable leadtimes have increased steadily since '86, reflecting growing demand and capacity utilization.**



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**The forecast for stainless bars and rods sees sharply higher leadtimes in '88: 17% higher on average compared with '87.**



Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

**Leads for chains will show little change from last year's pattern, oscillating around 4 weeks.**

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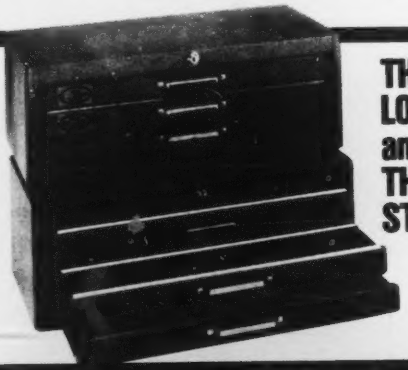

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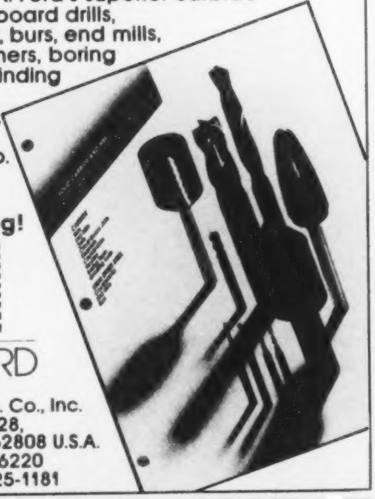

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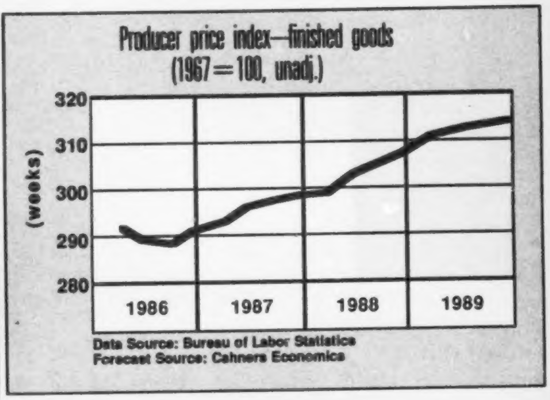
# SUPPLY OUTLOOK

## Sharp price advances for intermediate materials

In March, prices for intermediate materials, supplies and components registered their largest monthly increase since July 1987. The producer price index for those materials rose 0.6 % between February and March, according to data released by the U.S. Dept. of Labor.

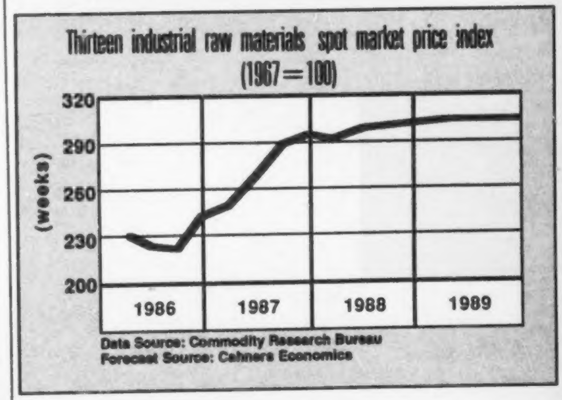
The largest jump has occurred in primary manufacturing industries, including metals, paper and petrochemicals, which are operating at high levels of capacity utilization. Large advances were also posted in leather, plastic resins and fabrics.



Producer price index—finished goods
(1967=100, unadj.)

Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**The producer price index for finished goods moved up 0.6%, seasonally adjusted, from February to March.**



Thirteen industrial raw materials spot market price index
(1967=100)

Data Source: Commodity Research Bureau
Forecast Source: Cahners Economics

**The prices of 13 leading raw materials will moderate this year after a dramatic rise in 1987.**

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JULY 1988
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# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Selling safety equipment

## How profitable is your business?

$$
ID'S ANNUAL SURVEY

**Industrial Distribution**
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 7
JULY 1988
A CAHNERS PUBLICATION

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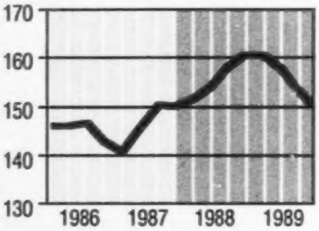

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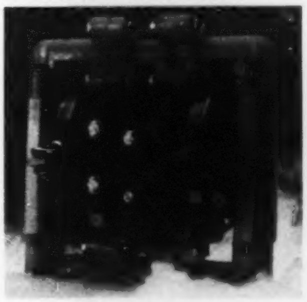

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## 42ND ANNUAL SURVEY

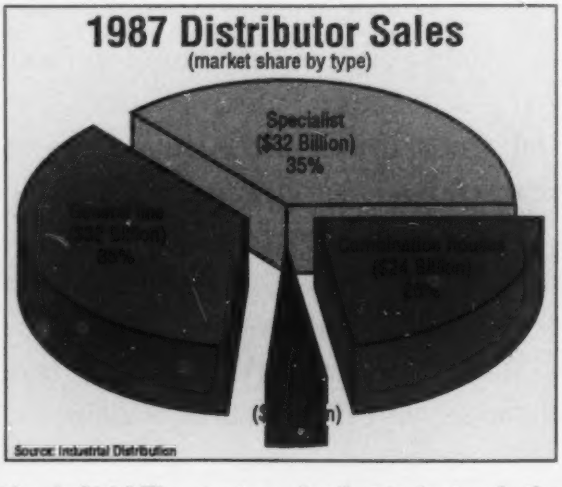
# Sales reach $92 billion mark

**By John G.F. Bonnanzio, Associate Editor**

Based on the results of INDUSTRIAL DISTRIBUTION's *42nd Annual Survey of Distributor Operations*, one might think that 1987 was a year for giving thanks.

According to the *Survey*'s respondents, last year general line and specialty distributors increased their sales an average of 5%. In stark contrast, combination houses (those businesses selling to wholesale and non-industrial markets), enjoyed a phenomenal year, with median average sales rising 12%. Distribution's strong showing for the year is in obvious response to manufacturing's robust performance, where overall output climbed 5.9% in 1987.

For some distributors, sales gains were even more spectacular, as increases of 20, 30 and even 40% from a year earlier were posted. In fact, based on estimates prepared by ID for this report, 1987 industry sales reached an all-time high of $92 billion which, in data supplied by over 400 companies, is $4.6 billion greater than 1986 sales (see box).


1987 Distributor Sales
(market share by type)

Source: Industrial Distribution

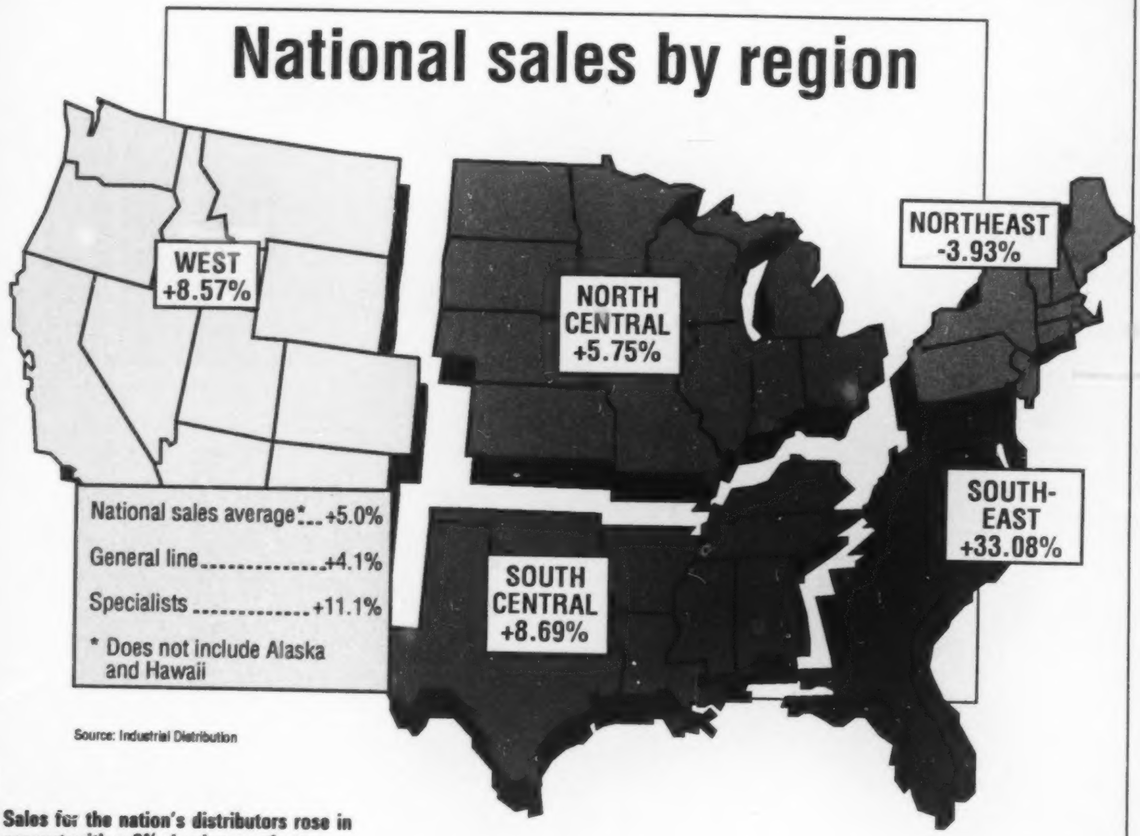
With so much good news around, one might reasonably believe that all is well with distribution, and that fears of mergers and acquisitions have been vastly overstated. But in spite of healthy sales and improvement to return on investment (ROI), there is an interesting footnote to the *Survey*. When asked to evaluate distribution's bottom line, nearly 6 respondents in 10 indicated that profitability will be more difficult to maintain during the next 5 years.

Despite these dour forebodings, optimism was not altogether absent. In fact, 96% thought that 1988 sales will finish ahead of 1987, while less than 5% expected to see sales decline.

Sales and profitability are, however, very different stories. And the question must be raised as to why distributors' sales are lagging behind manufacturers' shipments, even if that difference is a mere one percent.

In the survey that follows, ID examines some of the more revealing aspects of the industrial distributor's operations: sales and profitability, operating costs, management, inventory, receivables, personnel, and warehousing. Although the results indicate few threatening trends, there is some important evidence that profitability is eroding in the face of increasing sales, and that distributors are hesitating to capitalize on technologies and operating methods that are widely thought to enhance sales and profits.

To understand how these trends affect your company, a chart is provided on p. 41 for rating your performance.



Source: Industrial Distribution

**Sales for the nation's distributors rose in concert with a 6% rise in manufacturing's output.**

## SALES & PROFITABILITY

For respondents to ID's questionnaire, the median average distributor had 1987 sales of $2.1 million versus $2.0 million in 1986. This is an annual increase of 5%.

Sales for the average general line distributor were $2.5 million in 1987, while specialty houses managed to sell $2.0 million worth of goods and services. There was little difference between specialists and generalists, large distributors and small, in terms of profitability.

In the five geographic regions of the U.S. analyzed in the *Survey*, only Northeast distributors posted decreased sales during 1987. Charging ahead in sales was the Southeast (+33%), reflecting a recovery in farming, textiles, woodworking, paper and pulp production, as well as new construction.

As expected, the North Central states showed signs of renewed life. Although sales were up a very disappointing 5.75%, they were still slightly ahead of the national average. While a number of companies such as Caterpillar increased payrolls in 1987, the auto sector's modest improvement failed to provide the kind of sales that many had anticipated.

Upon close examination of individual questionnaires, there is no doubt that many distributors in the autobelt had a successful year. Just as apparent, however, is that the region also had some big losers which, in statistical terms, may have preempted some of the gains posted by the "winners."

In the South Central region, continuing population growth translated into sales increases of 8.69%. While part of the area's gains were undoubtedly absorbed by the oil patch states, sales in Tennessee and Kentucky increased largely with the arrival of foreign and domestically controlled auto assembly plants.

Further south in the Panhandle, rotary rig activity is not expected to improve without higher oil prices, and OPEC's inability to orchestrate pricing seems to assure that cities like Houston are not likely to rebound any time soon.

Another laggard in the geographic group was the Northeast. While the "Massachusetts Miracle" has recently received attention, in reality, the Bay State has continued to lose much of its manufacturing base to the service sector. Meanwhile, New York, because of fewer jobs, is watching its population move southward in ever greater numbers.

There are some bright spots in the area, however, as Maine, New Hampshire and Vermont have all geared up lumber, paper and residential construction business.

In last year's survey, distributors in the West and Mountain states predicted that sales would increase 10.4% in 1987. Perhaps somewhat optimistic, they nonetheless fared well, posting gains of 8.57%. In a region that combines aerospace, high technology, energy, farming, fishing, and lots of construction, it can be argued that as the West goes, so goes the nation. During the year, the nation did in fact boost its gross national product 2.9% while managing to hold inflation in place at 3.7%. The West apparently responded in kind.

**PROFITABILITY**

If in business the name of the game is sales, then certainly the winner can be called profitability. In this area of industrial distribution, interpreting figures can be as valuable as it is misleading.

For example, gross profits industry wide increased in 1987, with little difference to be found between generalists (+4.1%) and specialists (+3.7%). However, while total operating expenses increased 4.3% for the industry, generalists proved far less efficient in controlling their expenses (+6.5%), as compared to specialists who reined in their costs at 2.1%.

In examining ROI, the ultimate measure of a company's profitability, one can see that in spite of improving sales, little headway has been made towards adding black ink to the industry's bottom line. In fact, between 1987 and 1986 ROI remained unchanged at 8.0%.

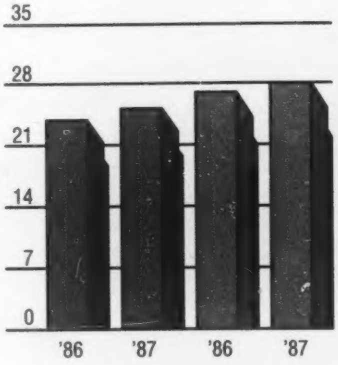
While general liners lost a half percentage point of net worth during the year, specialists managed to increase that measure by a full one percent. The reason? That is more difficult to explain, although one obvious relationship worth mentioning involves distributors who are computerized and those who are not.

Nearly three-quarters of all industrial distributors asked use computers for a variety of business applications. According to last year's survey, the vast majority use their installations for all the traditional purposes: inventory, purchasing, accounts receivables and payables, order entry, etc. This year's survey found, however, that ROI for computerized distributors is 9% versus 7% for non-computerized distributors.

Further, when ROI was calculated to determine profitability in 1986, computerized distributors once again outperformed those without computers. (See "How computerized and non-computerized distributors compare" on p.39.)

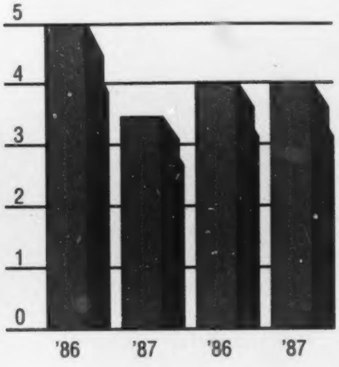
**Gross profit**

(% of total sales)



**Net profit before tax**

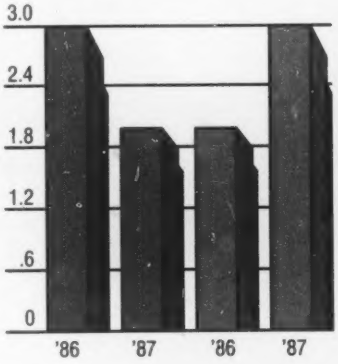
(% of total sales)



■ General Line ■ Specialist

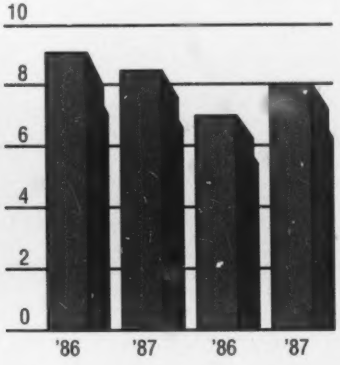
**Net profit after tax**

(% of total sales)



**Return on investment**

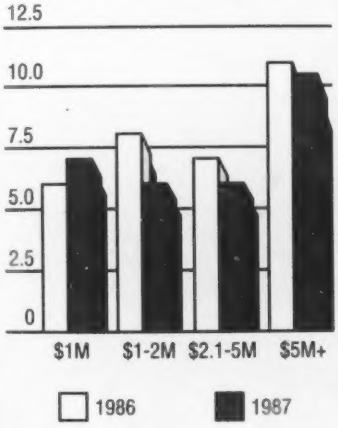
(return on net worth)



■ General Line ■ Specialist

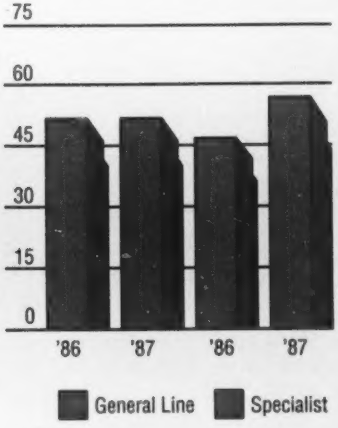
**Return on investment**

(return on net worth by sales size)



**Gross profit per employee**

($000)



As every distributor is aware, mergers and acquisitions are gripping the industry as never before. In fact, a report conducted by Arthur Andersen & Co. speculated that the number of wholesale-distribution firms will decline 25% from 1987 to 1995.

While this figure is alarmingly high, ID's own numbers are consistent with those of the study. When distributors were asked whether they were approached with an acquisition offer during 1987, 30% indicated "yes." However, the *Survey* reveals that large distributors were approached nearly three times as often as smaller distributors.

In measuring both general line and specialty distributors together, only 16% of those with sales of $1 million or less reported being approached by an acquirer. But as sales increased, so did interest in the company. For example: 26% of distributors with $1 million to $2 million in sales were approached; $2.1 million to $5 million (44%); and $5 million-plus in sales (42%).

Of those looking to acquire, only 3% of the "million-dollar" distributors were actively seeking an acquisition, while 18% of those with "$5+ million" in sales were looking to acquire.

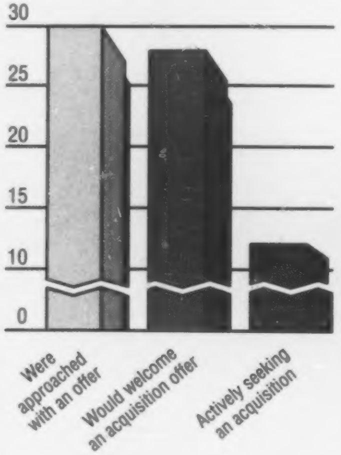
Other opinions expressed by management involved relationships with suppliers and customers. While 44% of distributors thought they would increase number of vendors in the next 2 years, again there was a decided difference when measured by sales.

In the "million-dollar" category, only 4% of distributors thought they would decrease their supplier bases; 31% of the largest distributors agreed. However, 88% of generalists and 92% of specialists speculated they would increase customer bases in the next 2 years. Only 81% of the smallest distributors thought that was likely, while 92% of the largest distributors expect to increase customer bases.

## Survey methodology

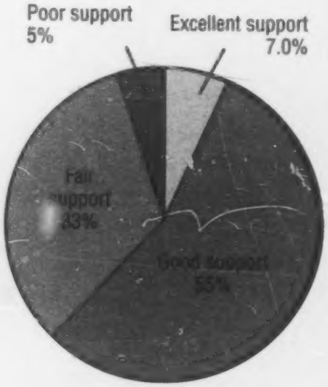
**The *Survey* is actually two separate reports. The first was mailed to the headquarters of general line and specialist distributors, and is based on 307 returns. The second was mailed to combination houses, companies dividing their business between industrial and non-industrial markets; 119 companies participated. Margin of error is ±5%.**

### Acquisitions

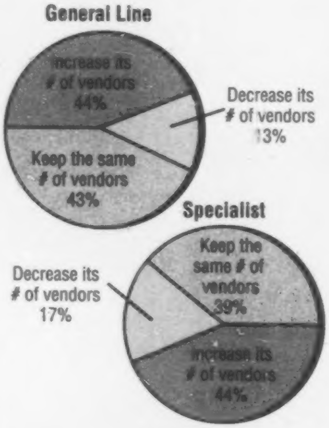


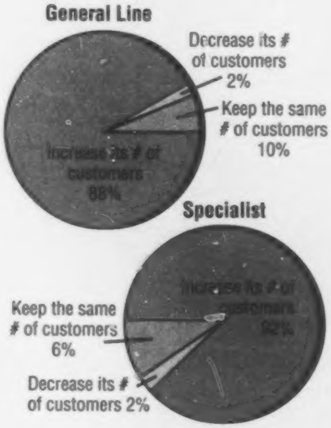
### Vendor Support

(In general, most vendors provide...)

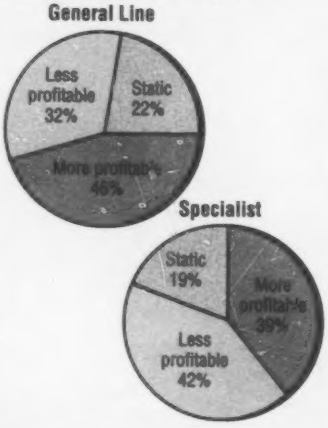


### During the next 2 years, our company will...

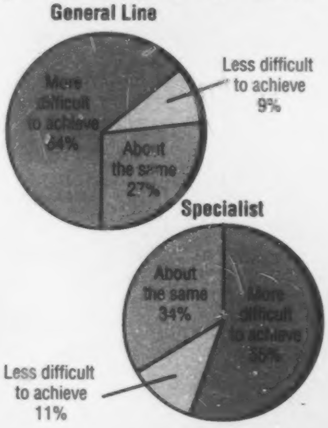




### In the past 5 years, distribution has become...



### During the next 5 years, profit margins will be...



# INVENTORY & RECEIVABLES

When it came to measuring inventory values, distributors showed little preference for method. Half indicated a preference for last-in-first-out (LIFO); only 40% of general liners value inventories by the first-in-first-out (FIFO) method.

In 1987, the average LIFO value for all distributors increased 8% to $230,000 while LIFO reserves soared 19%. In contrast, FIFO values during 1987 decreased nearly 9% to $331,000.

When the average monthly inventory values of companies using the LIFO method were examined, distributors with annual sales of $1 million or less were found to have increased LIFO values 40%: from $43,000 to $61,000. On the opposite side of the spectrum, distributors with $10 million-plus in sales increased LIFO values 11%.

Back in September '87, the American Production and Inventory Control Society (APICS) cautioned that inventory-to-sales ratios were "getting out of hand again" (**ID**: Nov. '87, p.39). Unfortunately, it appears that some distributors may have lost profits based on expectations that higher inflation would increase inventory profits. On the surface, at least, large distributors maintained a more cautious position and ultimately outperformed their smaller counterparts with 10.5% ROI versus 7%.

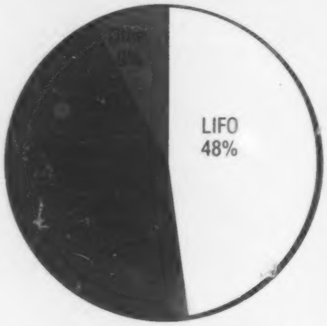
Other differences were not as dramatic. Neither general line nor specialty distributors managed to improve on collection efforts, although receivables for specialists were 45 days outstanding as compared to 41 days for generalists.

When it came to inventory turns,* large distributors once again capitalized on economies of scale. Distributors with sales of $10 million or less averaged 4 stock turns per year; the giants reported 7 turns per year.

However, in yearly comparisons, neither general line nor specialty distributors improved their stock turns from 1986 to 1987, although general liners fared slightly better than specialists. One explanation for the difference is that specialists are more dependent upon value-added services for their sales than are generalists. In fact, generalists indicated that fully 65% of their sales are from stock on hand, while specialists claimed only 50%.

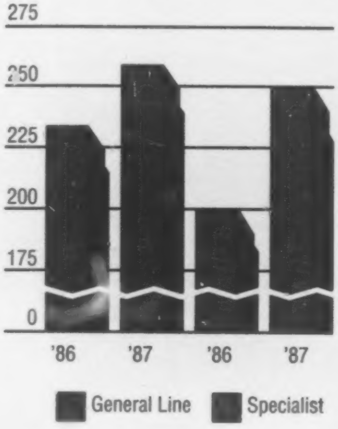
*Stock turns were calculated by multiplying the percent of shelf stock sales at cost by total sales and dividing the result by the average monthly inventory value.

**By what method do you value your inventory?**

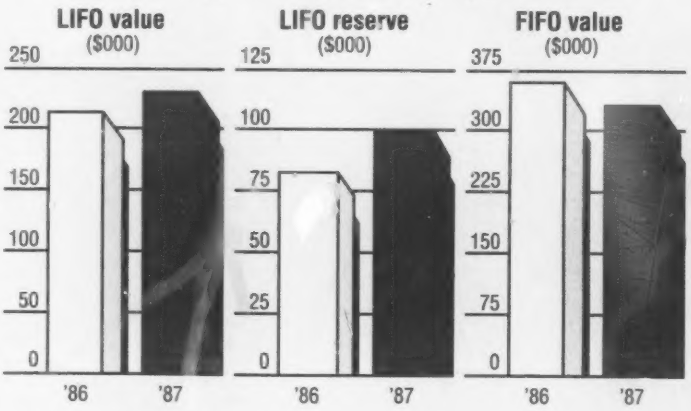


**Receivables**

(Year-end value $000)

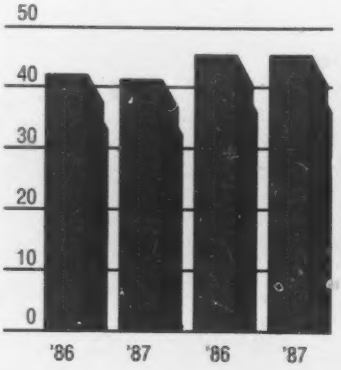


**Average monthly inventory value**

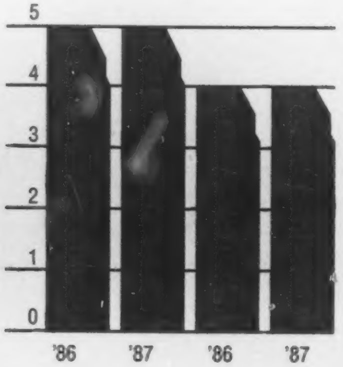


**Collections**

(Receivables outstanding in days)



**Stock turns**



General Line   Specialist

# PERSONNEL

The 1987 *Survey* revealed few clearly discernible trends in either new hirings or personnel deployment. Although the median average number of full-time employees increased from 10 to 11, such a difference is statistically too slight to confirm an overall direction. Further, there are no apparent changes in the placement of outside salespeople, inside (and telemarketing) salespeople, or counter salespeople.

During 1987 the average general line distributor employed 10 people, as opposed to 11 in 1986. Based on numbers obtained from the 1986 *Survey* as well as this year's report, specialists have resisted hiring new personnel since 1985, in spite of rising sales.

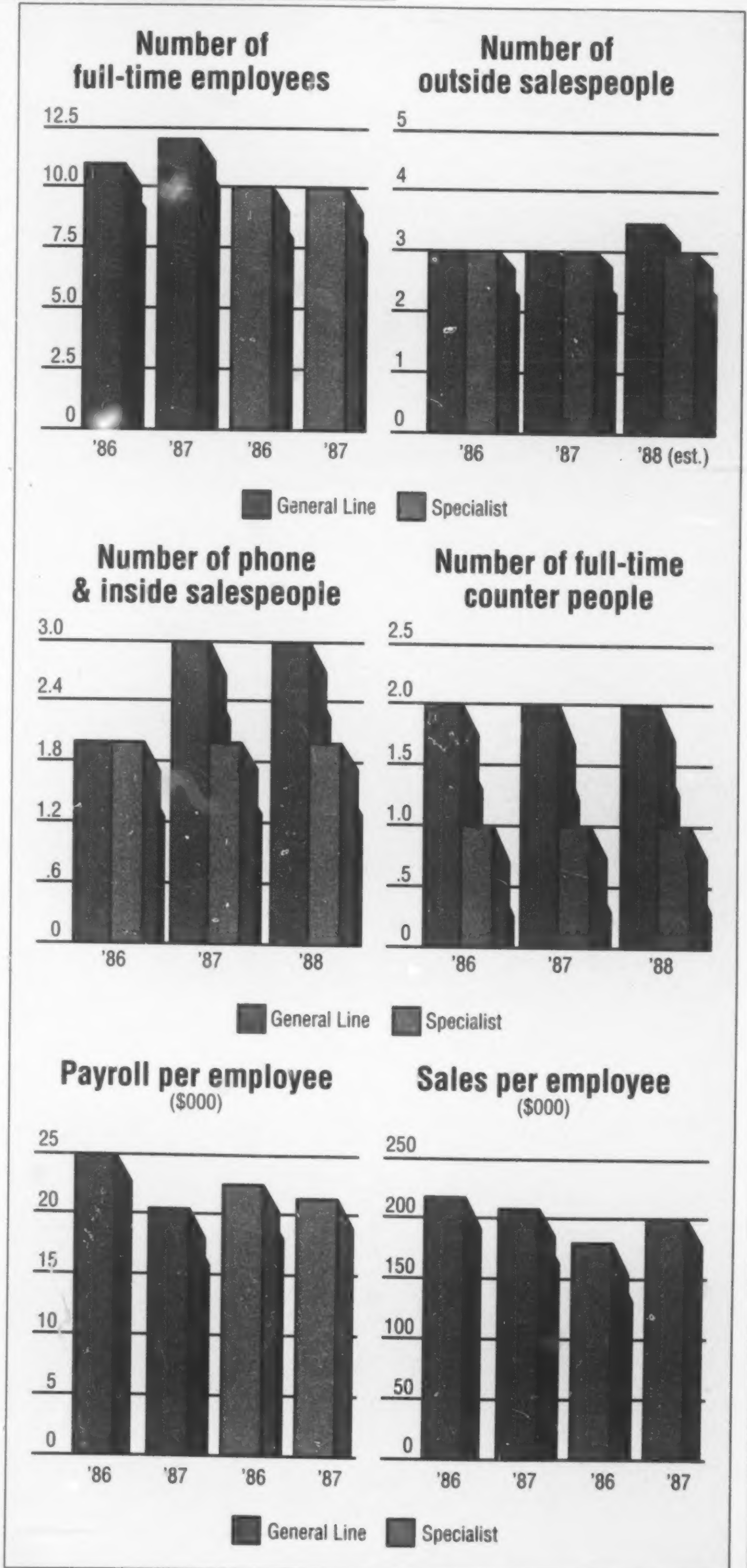
While most distributorships are in desperate need of experienced sales help, the prospects for those entering the field without job-related experience appears slight for the remainder of the year. When respondents to the questionnaire were asked to estimate hirings for 1988, demand for inside and telemarketing positions were the only category thought to increase. The hiring of outside salespeople and full-time counter salespeople is expected to remain unchanged.

What the *Survey* did discover, however, is that while general line distributors managed to eke out slightly greater sales per employee than specialists, should current trends continue, specialists will vastly outperform generalists in 1988.

Between 1986 and 1987, specialists increased their sales-to-employee ratios 11%, while generalists lost nearly 5% of their output. Although such measures are not a clear indicator of productivity, as both businesses are similar, large shifts sustained over several years may prove to be an important barometer.

## Medians and averages

**Unless otherwise noted, most percentages expressed in this report are median averages which, in their simplest form, define the midpoint in a statistical range (half of a group will be larger and the other half smaller than the midpoint). Medians are more representative of a group and are less distorted by extremes. Responses to open-ended questions are expressed in medians. Averages have been used to measure responses to closed-ended questions such as "yes" and "no."**



# WAREHOUSING

Although most distributors anticipate increasing both their customer and supplier bases, only 18% think it necessary to either enlarge their warehouse space or increase their number of stocking locations.

In measuring sales per square foot of warehouse space, specialty distributors managed to make more money with less available room. Averaging 5,000 square feet of warehouse space, specialists increased their sales-to-space ratio 11% to $400. On the other hand, the generalist averages an 8,000-square-foot warehouse and only managed a sales-to-space ratio of $313, an increase of 4.3% from 1986.

As was indicated earlier in this *Survey*, ratios can be misleading, particularly when two similar (but not identical) entities are being compared. What remains important are trends and, as has been seen throughout this report, the ability of the specialty distributor to continually outperform the general liner by virtually every important measure.

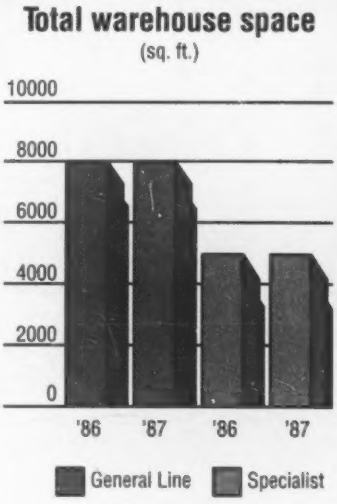
# OPERATING COSTS

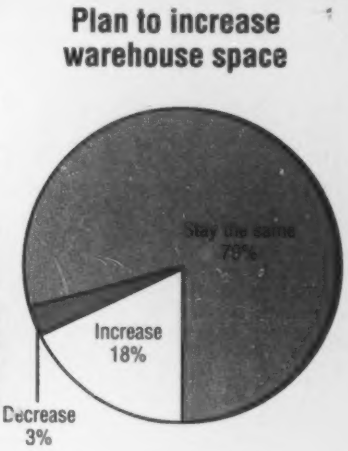
During the year, insurance and data processing costs increased. The average general line distributor paid $35,000 in premiums in 1987, versus $33,000 during 1986. In addition, 1 distributor in 10 was involved in a product liability suit, while nearly a third of those were penalized. The average "settlement" was $3,475.

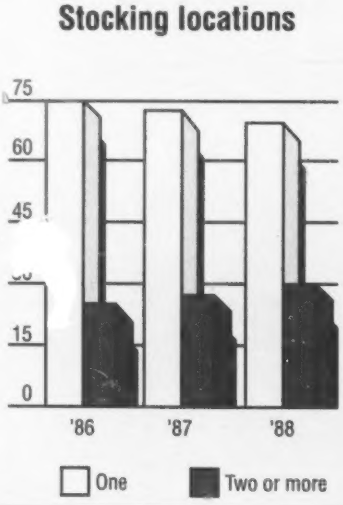
Electronic data processing (EDP) costs rose sharply last year for specialty distributors, increasing an average of $5,000, or nearly 20%. While part of these higher costs are attributable to new equipment, specialists also paid more in salaries, perhaps reflecting increased wages as opposed to hiring of additional staff. In contrast, generalists spent slightly less on EDP in 1987 ($42,000 versus $41,000), with equipment expenditures being squeezed $1,000 from a previous budget of $11,000.

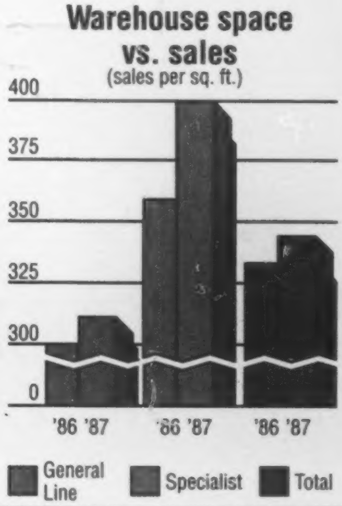
## How to order

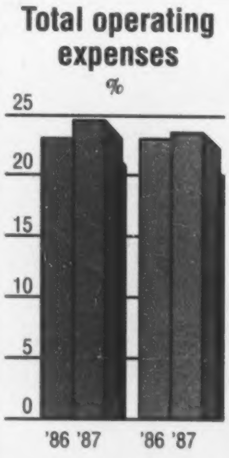
*Complete copies of the 42nd Annual Survey of Distributor Operations are available in report form. For ordering information, see p.39.*

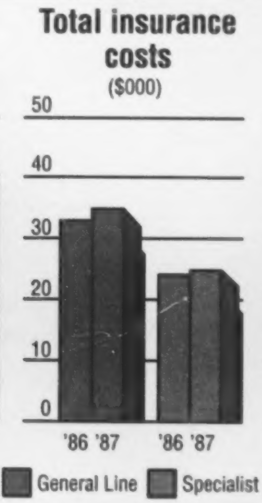


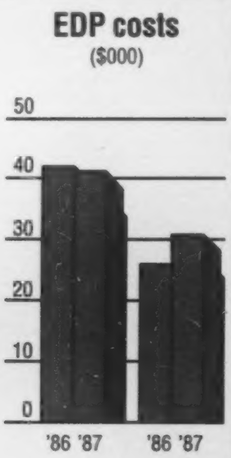












Industrial distributors are computerized, and the way in which they conduct their businesses will never again be the same. In 1987, nearly three-quarters of all distributors surveyed used computers in some aspect of their business and, if the past is any indication, that figure is likely to increase.

More important than the overall "computerization" of the industry, however, is how well electronic data processing (EDP) is serving those who already use it.

Not only are computerized distributors enjoying sales three times greater than those of distributors using the "conventional" approach, but more importantly, they are far more profitable as well (see table above right).

A look at employee productivity levels reveals the advantages of EDP. Gross profitability is higher for businesses with computers, as are gross profits per employee. In addition, whereas each employee in a non-computerized distributorship accounts for $138,000 in sales, those with computers command sales of $180,000; a difference of 30%.

**THE DIFFERENCE IS PROFITS**

In perhaps the best measure of profitability, computerized distributors achieved ROI of 9%, compared to only 7% for those without computers. In creating a hypothetical sales model of two distributors with sales of $1 million each, the computerized distributor would have net profits after taxes of $21,040, while the "conventional" business would have nearly one-third less to take home, or just $16,370.

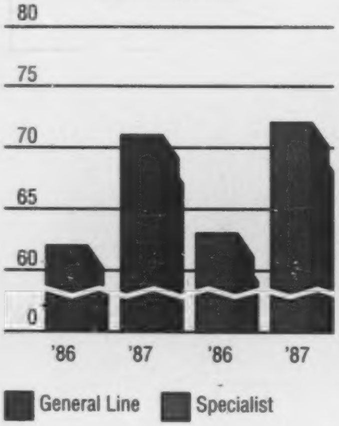
There were few surprises in the area of business automation. As the accompanying table indicates, the larger the distributor's sales, the greater the use of computers and facsimile machines, and the existence of electronic order entry capabilities.

Beyond the information which clearly indicates the benefits of computers, there is perhaps another less obvious message being sent. While there are many non-computerized distributors making money, and perhaps even a lot of money, computerized distributors have a choice not available to their counterparts: that is the option to grow.

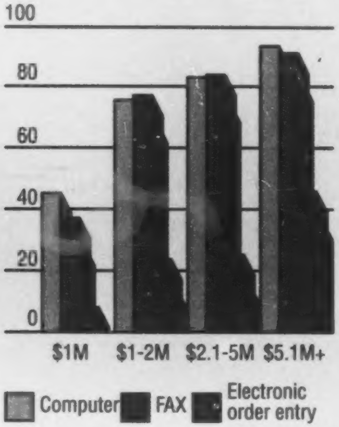
Indeed, the evidence is clear. Choosing to remain a small, profitable business without the advantage of a computer is, at best, a very large risk. But lacking automation dictates that a business must remain small.

## How computerized and non-computerized distributors compare

| | Computerized | Non-computerized |
|---|---|---|
| Total sales ($000) | $2700 | $825 |
| Gross profits (% of total sales) | 28% | 24% |
| Actual gross profits ($000) | $756 | $198 |
| Gross profit per employee ($000) | $50.4 | $33.0 |
| Sales per employee ($000) | $180 | $138 |
| Return-on-investment (% of total net worth) | 9% | 7% |



Percent using a computer



Business automation

distributors by sales ($ millions)

## How to order the Survey

How do you stack up against the competition? Analyze and compare all aspects of your company performance with the *42nd Annual Survey of Distributor Operations*, available in report form. It contains over 300 pages of original statistics on general line, specialty and combination distributors. Comparisons of distributor performance by annual sales and five geographic regions are included. The *Survey* is the most complete reference of its kind in the industry. A single copy is $175 prepaid. Write: INDUSTRIAL DISTRIBUTION Annual Survey, Cahners Building, 275 Washington St., Newton, MA 02158, Attn: Diane Mercurio, or call (617) 558-4346.

# Rate your company's performance

This table provides a brief but important overview of industrial distribution. Space is provided for your company's figures; please be careful to compare your numbers with the appropriate category.**

***General Liner:* No one product category contributes 50% or more to total sales.
*Specialist:* 50% or more of your total sales comes from one major product category, such as fasteners.

| | General Line | | Your Figures | | Specialist | |
|---|---|---|---|---|---|---|
| | '86 | '87 | '86 | '87 | '86 | '87 |
| Total sales ($ millions) | 2.4 | 2.5 | ______ | ______ | 1.8 | 2.0 |
| Cost of goods sold (% of total sales) | 73.0 | 71.0 | ______ | ______ | 70.0 | 70.0 |
| Gross profit (% of total sales) | 24 | 25 | ______ | ______ | 27 | 28 |
| Total operating expenses (% of total sales) | 23.0 | 24.5 | ______ | ______ | 23 | 23.5 |
| Net profit before tax (% of total sales) | 5.0 | 3.5 | ______ | ______ | 4.0 | 4.0 |
| Net profit after tax (% of total sales) | 3.0 | 2.0 | ______ | ______ | 2.0 | 3.0 |
| ROI (return on net worth) | 9.0 | 8.5 | ______ | ______ | 7.0 | 8.0 |
| Sales per employee ($000) | 218 | 208 | ______ | ______ | 180 | 200 |
| Receivables value as of Dec. 31, '87 ($000) | 232 | 260 | ______ | ______ | 200 | 250 |
| Receivables outstanding (# of days) | 42 | 41 | ______ | ______ | 45 | 45 |
| No. of invoices billed yearly | 5500 | 6000 | ______ | ______ | 3680 | 4000 |
| Avg. # of items per invoice | 4 | 5 | ______ | ______ | 4 | 4 |
| Avg. invoice value ($) (sales divided by yearly invoices) | 436 | 416 | ______ | ______ | 489 | 500 |
| Sales per sq. ft. of warehouse space ($) (sales ÷ total warehouse space) | 300 | 313 | ______ | ______ | 360 | 400 |
| Total payroll ($000) | 276 | 247 | ______ | ______ | 225 | 215 |
| Payroll per employee ($000) | 25 | 21 | ______ | ______ | 23 | 22 |

# Combination houses post 12% sales gain

*Evidence mounts that distributors wholesaling their goods to non-industrial markets outperform their peers in profitability.*

The nation's wholesale-industrial distributors, also known as combination houses, increased their sales 12% during 1987. For general line distributors in this category, average median sales rose a slim 3.3% in 1987 to $3.1 million. For specialists, the year proved far more successful, as sales jumped 25% to a median average level of $3 million.

But neither category of distributor could justifiably complain about year-end operating results. For the generalist, gross profits increased from 24% of total sales to 26%, and specialists followed suit having raised profitability from 23.2% in 1986 to 28.5% in 1987.

In comparing combination houses to the more "traditional" industrial distributor, it becomes apparent that the combination business is somewhat more profitable. Take, for example, return on investment (ROI) as a measure of profit as a percent of net worth. During 1987, combination houses averaged an ROI of 10% (9.0% for generalists and 8.5% for specialists).

For the distributor not engaged in wholesaling, industry ROI averaged only 8.0%, with generalists achieving an 8.5% return on net worth and specialty distributors obtaining an 8% return.

Why then were combination houses more profitable than industrial distributors last year? Unfortunately, a look at the goods sold by combination houses reveals too few answers. Last year, an increasing number of distributors sold plumbing and heating supplies, but based on sales in that industry, it's doubtful that increased profitability was accomplished there. In fact, Virginia-based Noland Co., which receives 59% of its sales from plumbing and heating, reported declining sales of 3% for that industry segment.

Gains, however, may have been made in the automotive aftermarket, where sales increased from 14 to 16%, as well as from a wide variety of "other" sources (see chart).

Gross profits per employee also improved for the year. Generalists managed to increase their workers' efficiency 11%, while specialists boosted employee output from $45,000 each to $56,000 per worker: an improvement of 25%.

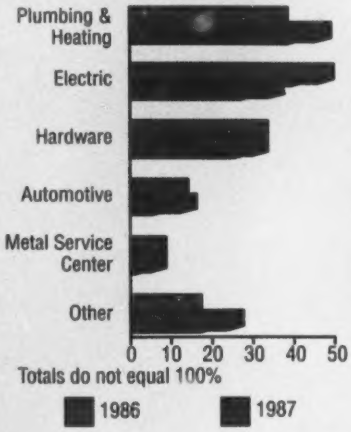
On the receivables front, generalists reduced the value of their outstanding billings nearly 17%, from an average of $260,000 to $217,000. Specialists also fared well, reducing their receivables from $248,000 to only $200,000, a reduction of 19%. Some headway was lost, however, although not by much, in the number of days collections were outstanding. For both generalists and specialists, average billing was outstanding 45 days.

New to this year's survey were questions pertaining to management's view of profitability. As seen in the accompanying pie charts, 46% of general line distributors thought their businesses had become more profitable in the past 5 years, while only 32% of specialty distributors agreed with that assessment.

Although 1987 figures suggest

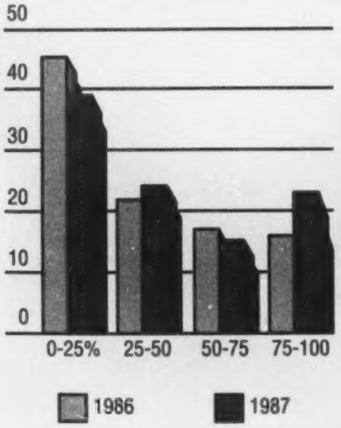
**Goods sold**

(other than industrial, in%)



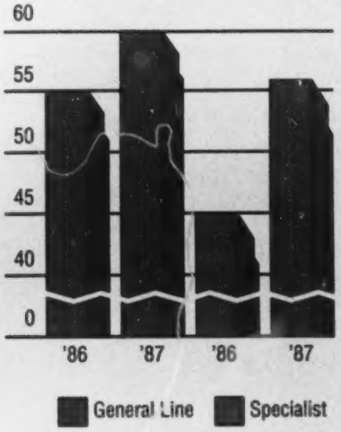
**Non-industrial sales**

(% of respondents)



**Gross profit per employee**

($000)



## How to order

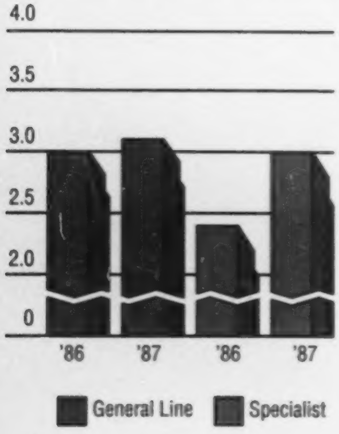
The *42nd Annual Survey of Distributor Operations* contains detailed information on industrial distributors selling to wholesale and non-industrial markets. It contains over 300 pages of original statistics on combination houses as well as general line and specialty distributors. Comparisons of distributor performance by annual sales and five geographic regions are included. A single copy is $175 prepaid. Write: INDUSTRIAL DISTRIBUTION Annual Survey, Cahners Building, 275 Washington St., Newton, MA 02158, Attn: Diane Mercurio, or call (617) 558-4346.

that generalists are less profitable than specialists, 32% of generalists and more than half of all specialists thought distribution had become less profitable.

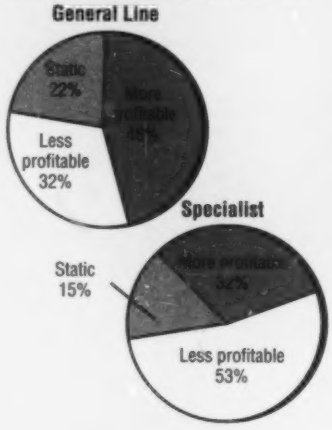
When questioned about the future, a majority of general line and specialty distributors (58%) believed profit margins would be more difficult to achieve during the next 5 years. In stark contrast, a mere 8% of the respondents thought profitability would be less difficult to achieve in years ahead.

Whatever the truth may be regarding profits, the 1987 *Survey* makes at least one point clear; last year, combination houses made more money than general line and specialty distributors. And if any distinctions are important in business, it's safe to assume that profitability counts. ☐

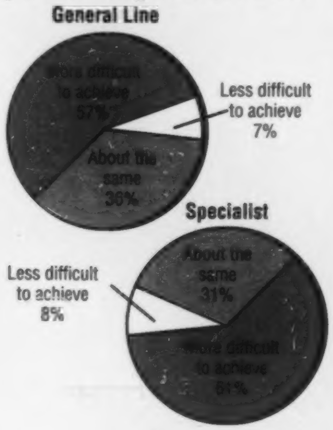
**Total sales**
($ Millions)



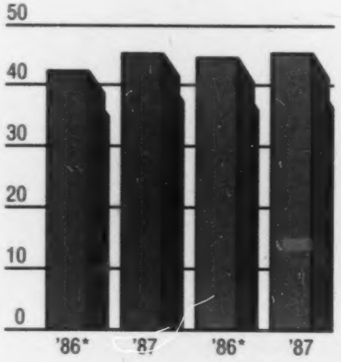
**In the past 5 years, distribution has become...**



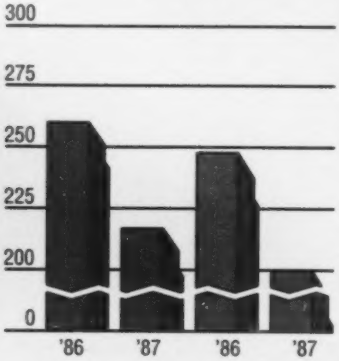
**During the next 5 years, profit margins will be...**



**Collections**
(# of days outstanding)

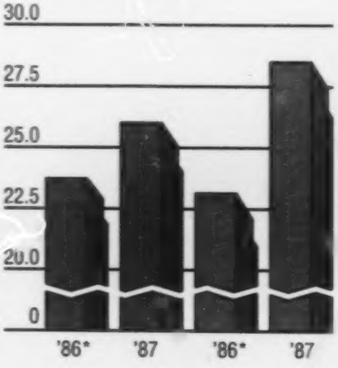


**Receivables**
(Value $000)

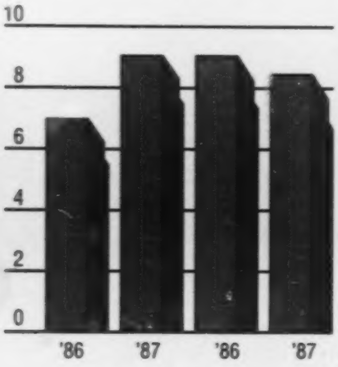


▨ General Line ▨ Specialist

**Gross profit**
(% of total sales)



**Return on investment**
(in %)



▨ General Line ▨ Specialist

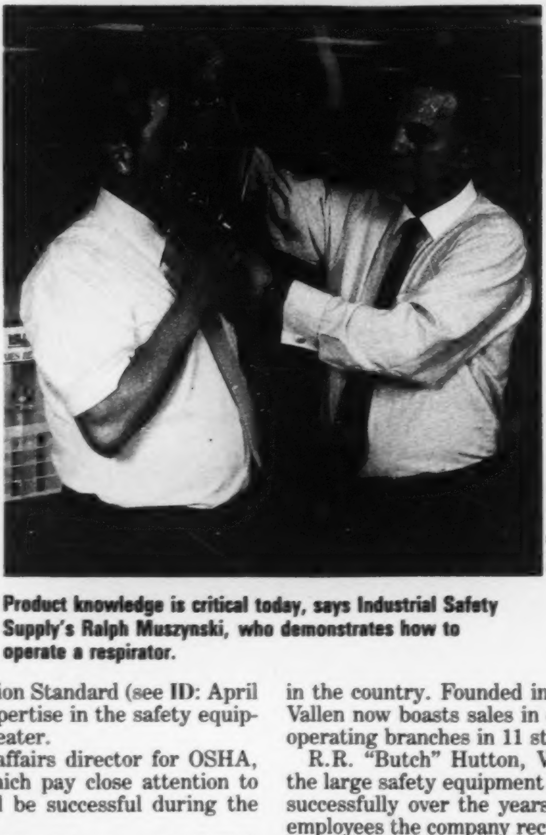
*Based on 1986 survey results

## ID's HOW to SELL SERIES

*As OSHA regulations tighten and jury awards skyrocket, manufacturers and customers demand that safety distributors be experts.*

# Expertise drives SAFETY SALES

**By Steve Zurier, Associate Editor**


Rick Tango

**Product knowledge is critical today, says Industrial Safety Supply's Ralph Muszynski, who demonstrates how to operate a respirator.**

The story of the modern safety equipment supply industry dates back to the 1940s, when the United States geared up its industrial plant to meet the challenges of World War II. At that time, manpower was scarce and employee safety was considered a part of our national defense effort.

As enterprising Americans are apt to do, a business grew out of this initial demand for a safe workplace. Although some large general line distributors moved into the field, it was the specialized safety equipment distributors that were in the best position to meet the needs of industry when the federal government created OSHA in 1971.

Today, with a recent federal appeals court ruling which says that *all* companies must abide by OSHA's Hazard Communication Standard (see ID: April '88, p.25), the demand for expertise in the safety equipment field has never been greater.

Notes Jim Foster, public affairs director for OSHA, "It's clear that the firms which pay close attention to detail are the ones that will be successful during the 1990s."

One of the most obvious results of the upgraded OSHA standards is that safety equipment manufacturers are demanding that distributors be experts. For example, 3M's Occupational Health & Safety Products Div. (OH&SP) requires their distributors either to specialize in the field or have a division that deals specifically with safety equipment.

Says Robert Pereson, OH&SP's national sales manager, "Our distributors need to know not only the products, but the necessary training to use the products properly. We believe it's the professionals on staff within a distributorship who make the difference in the sales and service."

This emphasis on professionalism is what's made 3M distributor Vallen Safety Supply Co. of Houston, TX, one of the largest safety equipment distributors in the country. Founded in 1947 with one product line, Vallen now boasts sales in excess of $75 million with 24 operating branches in 11 states.

R.R. "Butch" Hutton, Vallen's president, notes that the large safety equipment distributorship has grown so successfully over the years due to the expertise of the employees the company recruits and trains, its extensive product line and the exceptional level of service it maintains in selling those products.

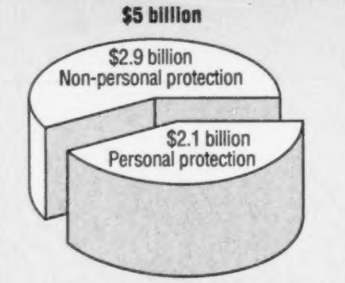
Vallen, certainly not restricted to carrying only 3M products, sells more than 10,000 specialized and commodity items from more than 250 manufacturers.

As part of its overall service package, Vallen offers repairs on respirators, fire extinguishers and portable instruments. If necessary, the company establishes on-site repair shops at the job site. While Hutton acknowledges that Vallen's core business is still in the chemical processing and oil refining industries, the firm has branched out over the years into the pulp and paper, electronics and food processing fields.

To meet special customer needs, Vallen works closely with suppliers to provide custom-engineered equipment. Some examples include a monitoring system for use in high noise areas, specially fabricated steel cabinets which protect remotely located respiratory equipment from bad weather and pilferage, and custom-built emergency respiratory trailers equipped to rush needed breathing apparatus to remote areas.

Says Hutton, "We can do anything the customer wants us to do, as long as it satisfies a need and provides a fair profit opportunity."

**Safety Equipment Market 1988 (estimated)**



Source: Frost & Sullivan, Inc, New York, NY

**Estimated at $5 billion in 1988, the safety equipment market will grow 4.3% annually through 1991.**

> 'What I want my people to strive for is quality time with quality accounts.'—Muszynski

### A SIMPLE SALES PHILOSOPHY

Vallen is an example of a large distributorship that grew by expanding both its product offerings and branch operations. Connecticut-based Industrial Safety Supply Co. has kept a New England market orientation, but has grown over the years by expanding its product mix.

Along with selling safety supplies, the firm, founded in 1945, now operates separate divisions for materials handling supplies; industrial plastic supplies and plastic fabrication, maintenance and medical supplies; and fire and rescue equipment. The firm does all of this out of its 165,000-square-foot facility in West Hartford.

Ralph Muszynski, Industrial's general manager and vice president, has a simple sales philosophy. Notes Muszynski, "The idea in selling safety equipment is to obtain sound product knowledge, acquire a broad based product line, learn about your customers, then develop the appropriate skills and expertise to get the job done."

As Muszynski explains, what he tries to instill in his field salespeople is the old axiom that 20% of their customers will account for 80% of the business they write up. "What I want my people to strive for is quality time with quality accounts. The salesperson has to get in front of the customers and see to it that they are exposed to as many of our product offerings as possible."

In Muszynksi's mind, most of selling is common sense. Says Muszynksi, "What I want is a guy who knows that during the winter, if he's selling industrial boots, thinks to ask if the customer needs rain gear, gloves, snow shovels, rock salt, or any number of ancillary products that can assist the customer and in-

Rick Tango

**Dependable repair work tailored to the needs of customers is an integral part of the sales strategy of most successful safety equipment distributors.**

crease our margins. There's always a way to increase sales if the salesperson's alert."

We can do anything the customer wants us to do . . . '—Hutton

### THE MANUFACTURER'S ROLE

Distributors can also enhance their sales strategies by taking advantage of the services their manufacturer partners provide.

For example, Ross Giordano, director of marketing for Justrite Manufacturing Co., notes that his firm supports Industrial Safety Supply and other distributors by offering free product literature and catalogs, educational tapes, sales training seminars, and cooperative advertising.

The cooperative advertising program involves credits which Justrite passes back to the distributor for use as he sees fit. These credits are based on the amount of sales volume a distributor generates.

Notes Giordano, "We let our distributors make the decision. Some spend the money producing their own catalogs, while others advertise in local newspapers, start direct mail programs or hold open houses."

### A SENSE OF THE MARKET

So with all of these specialized distributor services, selling philosophies and manufacturer support systems, you may ask, "What's the market like?"

The best market information available is a 391-page report published last year by Frost & Sullivan, Inc., a New York City-based research firm.

According to John B. Scott, the researcher on the project, the occupational safety equipment market will grow at an annual rate of 4.3% through 1991.

Scott estimates that for 1988, the market, defined as any product that ensures health and well-being in industrial plants and business offices, is expected to reach $5 billion dollars.

By dividing the market into two sections, personal and non-personal protection, Scott found that the personal protection market, which includes head, face, eye, ear, hand, foot, and respiratory protection equipment, would be worth $2.1 billion. The non-personal market, the bulk of which involves fire protection and air pollution equipment, is estimated at $2.9 billion (see chart).

Says Scott, "The fact of the matter is that it has become apparent to many firms that there is too much at stake economically, so companies must continue reducing the rate of fatalities, injuries and illnesses incurred on the job."

In this heavily regulated environment, distributors are bound to always have a core business they can depend on. But not just anybody can go into safety equipment sales. Whoever is interested must make a substantial investment in inventory and training and be prepared to compete against the combined purchasing power of the independents (see box) and the growing strength of the large distributors. ☐

## Selling safety as a group

When independent safety equipment distributors looked into the future, they saw a marketplace in which a few key players controlled a significant share of the business.

Enter the Safety Marketing Group.

Formed on Jan. 1, 1988, the Cincinnati, Ohio-based organization, also known by its acronymn SMG, is yet another effort by independents to gain competitive buying and selling advantage through the formation of a marketing group (ID: June '88, p.7).

Notes James R. Gardner, SMG's president, "In an industry that is being squeezed by highly capitalized firms, the independents find it tougher and tougher to maintain a healthy profit level. SMG is a concerted effort on the part of independents to remain competitive."

**SMG is a concerted effort on the part of independents to remain competitive. —James R. Gardner**

Based on a similar marketing group that Gardner manages for the paper industry, SMG has clearly caught on with independents. In a few short months, SMG has blossomed into a nationally based organization of 20 distributors, which combined represent more than $80 million in sales.

According to Gardner, one reason distributors find SMG attractive is that it lets them provide manufacturers with substantial volume and marketing services in exchange for a marketing allowance. This allowance is administered by SMG, but ultimately passed back to the distributor.

Some of the services SMG provides include yearly distributor/supplier meetings, monthly newsletters and a buyer's guide. SMG also offers closed product categories combined with the assurance that each distributor member will buy a minimum of 25% of their yearly purchases from SMG's preferred vendor list.

Robert Miller, national sales manager for The Protectoseal Co. of Bensenville, IL, maintains that SMG provides a fair trade-off.

Notes Miller, "We were already doing business with about 13 of SMG's members, so the advantage to us is that we were able to pick up a few more distributors and give the companies we've had longstanding relationships with more incentive to sell our product."

The incentives from the manufacturer translate into a real sales advantage, according to A.R. Dooley, Jr., chairman of Deer Park, Texas-based Dooley Tackaberry Inc. and secretary of SMG.

Says Dooley, "SMG gives the distributor the ability to sell a broad range of products that he can buy and resell at competitive prices. With this advantage, our members can better service their customers."

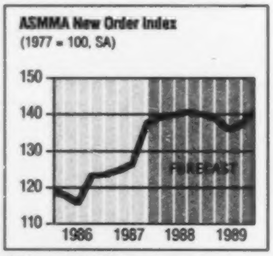
It's still too early to tell whether or not SMG will become a prominent player in the safety equipment field, but one fact is certain. The forming of SMG has sent a message to the marketplace that independents recognize the challenge before them and are ready to give larger distributors a tough fight.

# BUSINESS REPORT

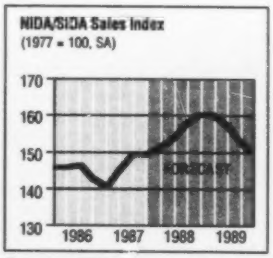
BY KRIS BLEDOWSKI

# Prices kept in check

## *Labor productivity increasing sharply*



**Data source:** ASMMA
**Forecast source:** Cahners Economics



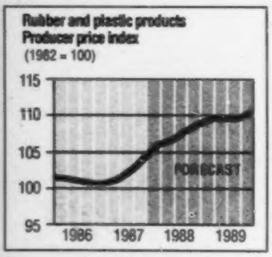
**Data source:** NIDA
**Forecast source:** Cahners Economics

Despite inflationary pressures in the American economy, many companies are holding back on price increases for finished goods. The economy was operating at 82.7% of capacity utilization in April, a rate that economists regard as "full employment" of resources. Such a high level of activity usually pushes prices for primary and intermediate materials up and bids up labor costs as well. The resulting tendency is for manufacturers to raise prices for finished products.

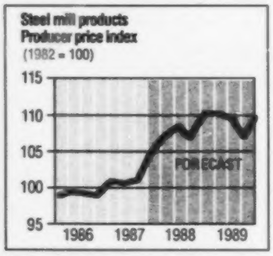
It appears that the moderate inflation for finished products is the result of competitive forces in the marketplace. Within the last 10 years, foreign suppliers forced American producers to check price increases by shipping more low-cost goods into the U.S. Flat domestic demand reinforced this trend. Manufacturers have partially offset higher input prices by increasing productivity and lowering profit margins.

A case in point is the paper industry. The cheap dollar stimulated foreign demand for pulp and paper. To meet the demand, paper mills pushed their capacity utilization to over 90%. As a result, prices for these products have risen 30% over the past 2 years. However, most companies have not passed along all the price increases.

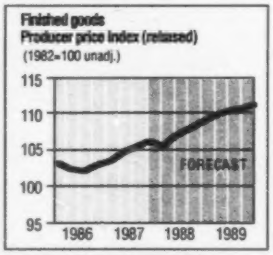
Another reason the inflation rate has not risen sharply is that labor costs have been held down. As a result of capital investment in newer and more efficient technologies, labor productivity—an employee's output per hour of work—has increased markedly. It is expected, however, that wages will soon start rising as well. Some regions, notably the Northeast and Midwest, are already experiencing labor shortages. Higher wages will inevitably increase the labor component in total costs. How much more will companies be able to sacrifice profits by holding prices is unknown. ☐



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics



**Data source:** Federal Reserve Board
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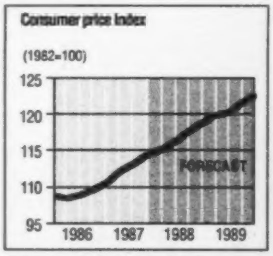


**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

## SALES BY REGIONS (% change)

| | SALES (%) March '88 vs. March '87 | | | RECEIVABLES (# of days) Feb. '88 vs. Feb. 87 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase Levels | Remain The Same | Decrease Levels |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | 10 | 11 | 9 | 46 | 49 | 28 | 48 | 48 | 28 | 15 | 85 | 0 |
| **MID-ADLANTIC** NY, NJ, PA | 18 | 40 | 212 | 43 | 43 | NA | 41 | 44 | NA | 50 | 50 | 0 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 24 | −44 | 0 | 35 | 41 | 38 | 41 | 41 | 98 | 38 | 48 | 14 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | 3 | 4 | 0 | 32 | 49 | 43 | 32 | 52 | 38 | 35 | 53 | 12 |
| **SOUTH CENTRAL** AL, MS, KY, TN | 22 | 37 | 14 | 37 | 42 | 64 | 31 | 35 | 70 | 42 | 54 | 4 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | 55 | 14 | 80 | 62 | 36 | 50 | 68 | 41 | 48 | 50 | 45 | 5 |
| **SOUTHWEST** AR, LA, OK, TX | −1 | 13 | 29 | 45 | 39 | 50 | 54 | 44 | 51 | 47 | 43 | 10 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | 3 | 10 | −13 | 40 | 41 | 43 | 43 | 41 | 45 | 39 | 39 | 22 |
| **PACIFIC** CA, OR, WA | 16 | 21 | 35 | 31 | 35 | 48 | 33 | 35 | 49 | 46 | 42 | 10 |
| **U.S. TOTALS** | 11 | 21 | 3 | 39 | 42 | 47 | 43 | 42 | 47 | 42 | 49 | 9 |

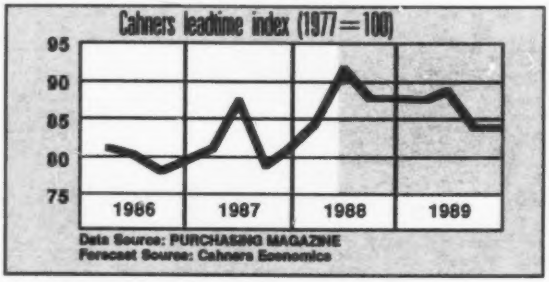
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Economy at full employment

## *No recession seen through '88*

The economy shows no signs of slowing down. Capacity in all industries increased to 82.4% in the first quarter of this year, with primary processing leading the way at 86.8%; this is the highest level since 1979. The biggest strains were registered in the paper industry (95.5%) followed by textile mill products (90.8%), rubber and plastics products (88.6%), and aerospace (88.3%).

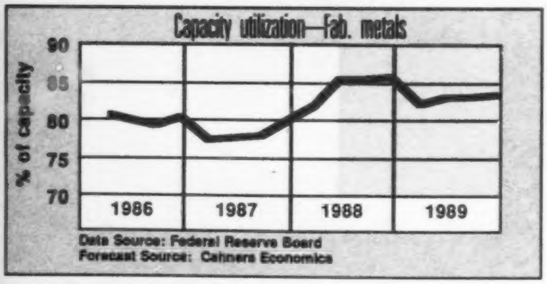

Cahners leadtime index (1977=100)

Data Source: PURCHASING MAGAZINE
Forecast Source: Cahners Economics

The strains are registered mostly in industries which have recently increased their exports. Operating rates for both electrical and nonelectrical machinery continued to rise throughout the first quarter, as did the rate for fabricated metal products. Aerospace industry is virtually export-led. Utilization at automobile assembly facilities also continued its rebound from very low rates at the start of the year. It is expected that motor vehicles, unlike other industries, will see high utilization ratios in 1989. Auto companies are trying to maximize their returns from modernized facilities, eliminating many plants altogether.

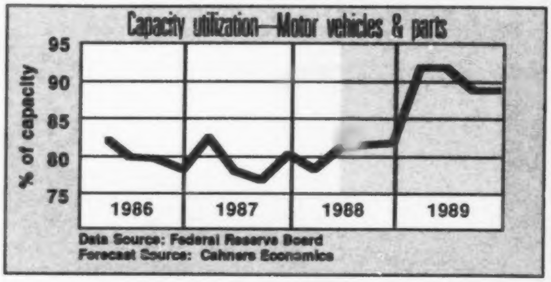
The Cahners Leadtime Index rose 3.3% in May after falling 2.3% in April. It was up 4.5% in the first quarter compared with the last quarter of 1987. The peak leadtimes will occur in the second quarter of this year when backlogs of orders from the booming first quarter will develop. For the year the index will be up 7.1%.

The economy should avoid the recession at least through the end of the year. The subsequent downturn will be shallow, with exports mitigating some of the domestic slack in aggregate demand. Foreign economies are expected to grow robustly through 1989, providing an outlet for American manufacturers who have invested billions of dollars in new technologies. This will result in continued improvement of the U.S. competitive position on world markets. ☐


Capacity utilization—Fab. metals

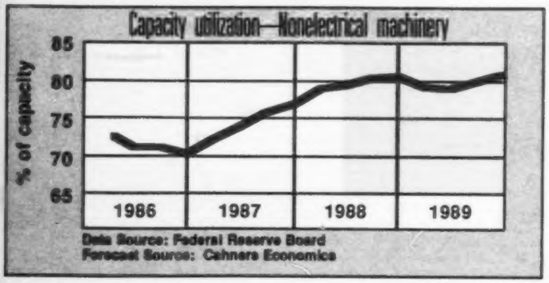
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Capacity utilization of fabricated metals will stay high through the year due to high exports.**


Capacity utilization—Motor vehicles & parts

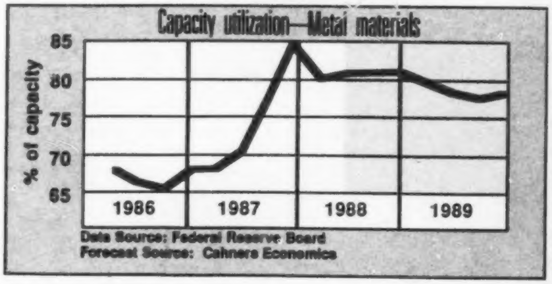
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Auto companies are better utilizing existing facilities due to more capital-intensive technologies.**


Capacity utilization—Nonelectrical machinery

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Exports of machinery accounted for the bulk of rising capacity that was reported.**


Capacity utilization—Metal materials

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

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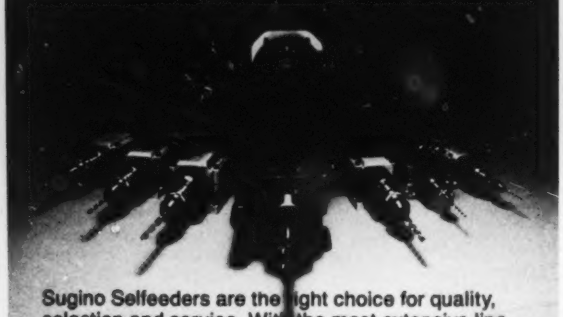

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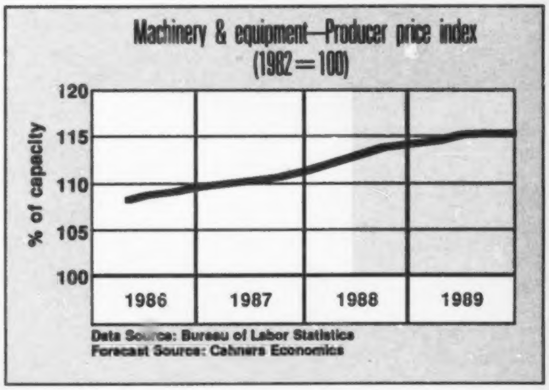
# SUPPLY OUTLOOK

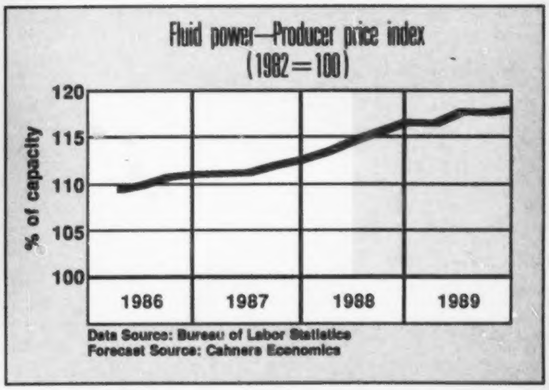
## Capital equipment prices stable

Following a 0.4% increase in March, the Producer Price Index for capital equipment recorded a 0.2% rise in April. A downturn in motor vehicle prices was largely responsible for the slower April pace. Indexes for metal cutting machine tools and oil field and gas field machinery showed little or no change after substantial March increases. In contrast, prices for civilian aircraft, printing trades machinery, and pumps and compressors climbed considerably more than in March. This was due to tightening of supply conditions in these markets.



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Producer prices of machinery rose 0.8% in the first quarter of 1988.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**The Fluid power industry is booming but price increases should be moderate.**

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# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

**SPECIAL:**

## Acquiring bearing expertise

## Reaching key buying influences

Tom Daman
Hagerty Brothers
Peoria, IL

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 8 AUGUST 1988 A CAHNERS PUBLICATION

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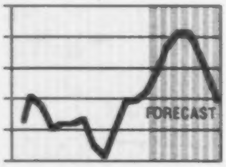

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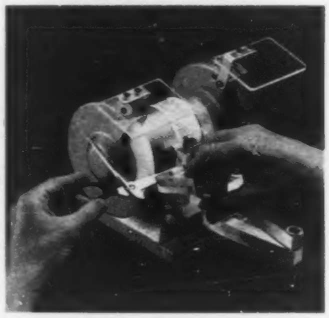

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# NEWS

# JIT seen as a growing trend

*Nine out of ten manufacturers and distributors responding to a national survey view just-in-time as strategically vital*

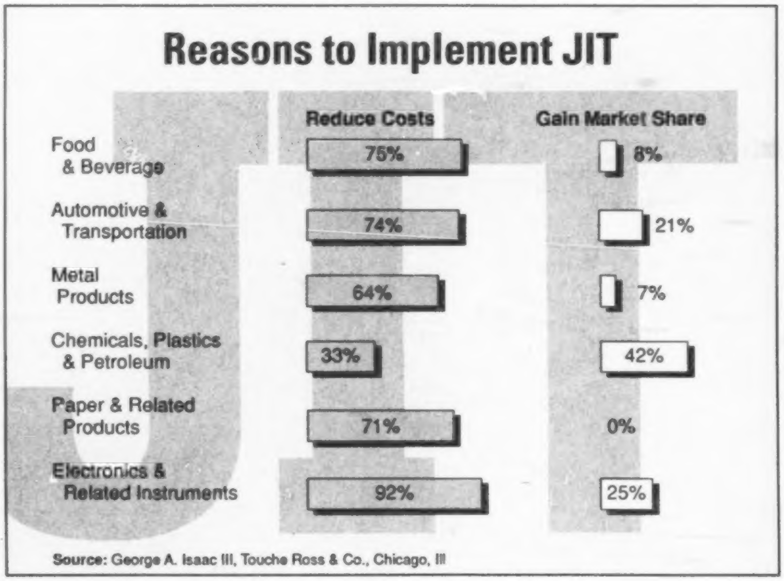
More than 50% of the respondents to a recent survey by management consultants Touche Ross & Co. say they are either planning or starting up just-in-time (JIT) programs.

JIT is a management philosophy that is designed to eliminate waste through delivery of the right product in the required amounts precisely when needed.

As major end-users seek to reduce costs while at the same time increase market share (see chart), industrial distributors have been seen by businesses as a key link in the JIT chain.

George A. Isaac III, a management consulting partner in the Chicago office of Touche Ross, maintained that those not currently evaluating or implementing JIT were "clearly in the minority."

"JIT is the response by American business to the challenge of international competition and the demand for quality," noted Isaac. "A JIT approach provides companies with the ability to deliver products under short leadtimes with minimal inventory investment. The purpose of our study was to measure the progress being made by businesses in implementing JIT logistics."



**Source:** George A. Isaac III, Touche Ross & Co., Chicago, Ill

*Cost reduction and increased market share were the primary reasons cited for implementing JIT.*

**JIT LEADS TO FEWER VENDORS**

According to the study, which was based on about 180 responses, manufacturers with fully operational JIT programs have reduced their number of primary vendors (which includes distributors) by 42%, compared to a 5% reduction for companies not planning to implement JIT.

"Companies purchasing more goods from fewer vendors are in a position to influence vendor quality control programs and reduce purchase leadtimes," said Isaac. "They also become more interdependent with those vendors, motivating both parties to engage in a more cooperative, joint venture relationship."

One measureable impact of this partnering relationship (**ID**: April '88) is that as JIT companies reduce their number of vendors, they become more satisfied with the vendors' quality. Nearly 60% of the respondents with fully operational JIT programs were very satisfied with the quality of their vendors, while only 18% of those in the planning stage were as pleased.

With this vendor satisfaction comes increased service. For example, 79% of the respondents with fully operational JIT programs provide daily deliveries to their customers. Some 58% of the respondents provide multiple deliveries per day.

In addition, JIT companies are implementing innovative distribution techniques, with 74% of the respondents having fully operational programs providing customized inbound routes. This compares to 54% of repondents not implementing JIT.

### JIT DOESN'T COME EASY

If there is one caveat that Isaac offered while discussing the report, it is that JIT does not come without its own set of obstacles.

"The one thing that I always tell my clients is that implementing JIT requires extensive planning," he explained. "One of the more significant issues to address while implementing a JIT program is to properly define the JIT service levels that will meet your particular customer's needs."

Isaac said that the problems most frequently cited by the respondents included organizational resistance, lack of systems support, manufacturing capability constraints, inadequate quality of purchased goods, inability to define service levels, and poor JIT implementation planning.

"There are a number of reasons why companies face these obstacles when implementing JIT," noted Isaac. "JIT principles require more cooperation and interdependence among departments and between companies. In addition, JIT impacts all areas of a company's organization and requires a major culture change for most businesses." However, our survey indicates that despite these problems, companies will continue to plan for and implement JIT to gain the competitive advantage it offers."

For more information on the study, contact Isaac at (312) 819-9174. ☐

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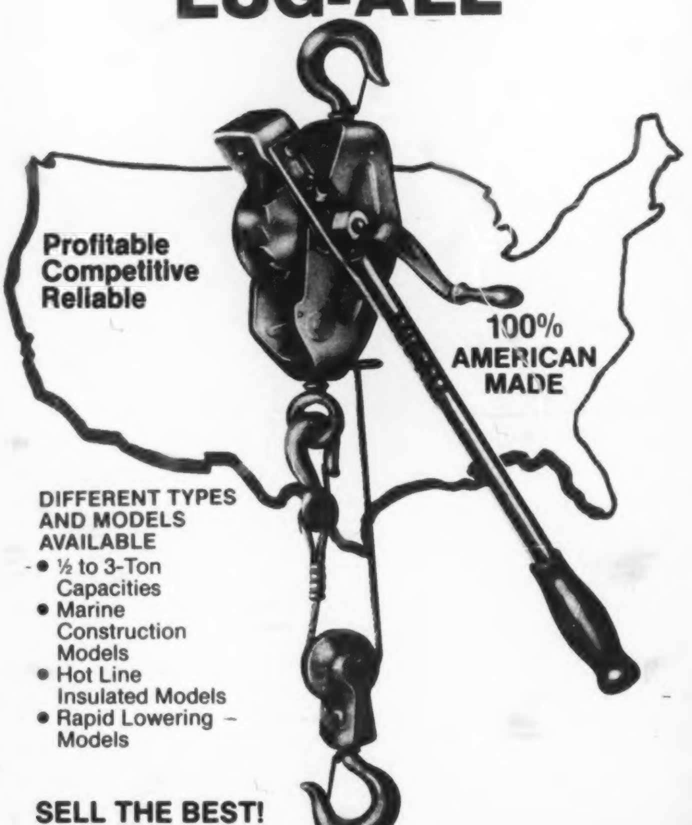

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## Panel focuses on ways to sell today's customers

LAS VEGAS, NV—Distributors are dealing with a new breed of customer today, one who is more sophisticated and educated in buying tech-

*The days of the "good old back slapping" salesperson are over, noted panelist Ronnie Scott.*

# NEWS

## Washington/Baltimore seen as prime area for distributors

BALTIMORE, MD—The Washington/Baltimore Metropolitan area is one of the fastest growing wholesale distribution markets in the country.

This was one of the conclusions of a report published earlier this year by the Washington/Baltimore Regional Assn. (WBRA), a trade alliance consisting of the region's leading companies.

Based on the report's findings, the wholesale distribution industry grew significantly in the Washington/Baltimore area during the past decade, with wholesale employment increasing an estimated 51.3%. In addition, the number of new wholesale establishments grew 34.8%.

Ray Weiss, WBRA's director of communications, noted that the local growth statistics can be compared to national figures, which showed an estimated 23.1% jump in wholesale employment and a 15.4% increase in new wholesale establishments.

Weiss explained that the WBRA report was a follow-up to research conducted last year by New York City-based consultant L. Clinton Hoch. In that study, the WBRA learned that the Washington/Baltimore area is underwholesaled, and that industrial and consumer goods are being imported from other nearby wholesale centers.

"Once we saw the results of Hoch's report, we decided to investigate the wholesale distribution industry further," Weiss said. "Our purpose in publishing the report was to point out to both outside investors and those already doing business here the fantastic growth opportunities that exist."

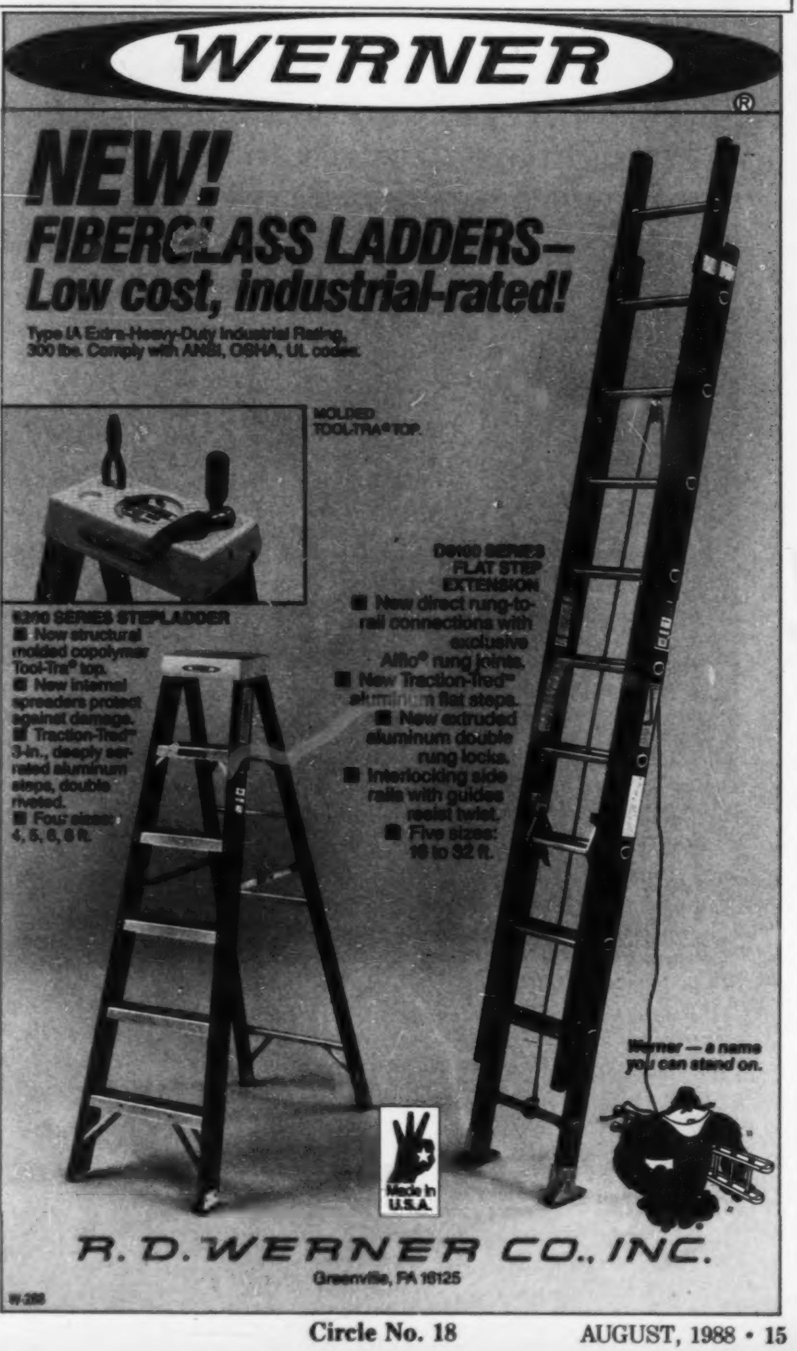
Weiss stated a number of reasons why Washington/Baltimore is a prime growth market. For starters, the region has 5.9 million people, making it the 4th largest market in the country.

Beyond market size and of more interest to distributors, people living in the region tend to be white-collar professionals who possess the com-

### Wholesale Distribution Industry U.S. & Washington/Baltimore Region (1977-1987)

| | | 1977 | 1985 | 1987 | % increase |
|---|---|---|---|---|---|
| U.S. | Employment | 4,708,000 | 5,717,000 | 5,797,000 | 23.1 |
| | Establishments | 382,837 | 438,141 | 442,000 | 15.4 |
| | Sales ($ billions) | $1,258.5 | $2,278.9 | $2,474.3 | 96.6 |
| Wash./Balt. | Employment | 94,500 | 131,100 | 143,000 | 51.3 |
| | Establishments | 5,529 | 7,242 | 7,456 | 34.8 |
| | Sales ($ billions) | $22.0 | $38.0 | $41.2 | 87.2 |

*By far, the Washington/Baltimore area leads the rest of the U.S. in creating new jobs and companies in the wholesale distribution industry.*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puter and office skills distributors need to staff their businesses. In addition, Washington/Baltimore handled $14.6 billion in federal contracts during 1987, ranking it 2nd in the nation behind the greater Los Angeles area.

For more information on the WBRA report, contact Weiss at (301) 685-0155. ☐

## Channellock buys Upson Tools

MEADVILLE, PA—Channellock, Inc. purchased Rochester, New York-based Upson Tools earlier this year for an undisclosed amount of cash.

William S. DeArment, Channellock's president, said the acquisition broadens the company's specialty screwdriver product line.

"Instead of being a private label for a manufacturer in this product category, we can now be the primary supplier," DeArment said. "This move should reduce our costs significantly."

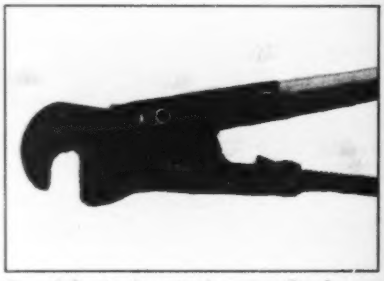
DeArment said that while Channellock plans to continue operating the Rochester plant, the complete line of Upson screwdrivers will be sold under the Channellock trade name.

He noted that the Upson products will go to market through Channellock's network of industrial distributors. ☐

## Bahco marks 100th year with special tool

DOYLESTOWN, PA—Bahco Tools is celebrating its 100th year in business by marketing a commemorative edition of the world's first universal pipe wrench.

According to Rick Bodenschatz, Bahco's national sales and marketing manager, the wrench, an updated version of the original model, is available in 9 sizes with jaw capacities between 1 and 6$\frac{5}{16}$ in.



*To celebrate its 100th year, Bacho Tools has issued a special edition of its universal pipe wrench.*

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Bodenschatz said Bahco hopes the tool will be a momento its users can cherish for decades. "We work in an

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# EXPORT PRODUCTS IMPORT PROFIT$

**By John G.F. Bonnanzio**
**Associate Editor**

During May's Triple Industrial Supply (TIS) Convention in Orlando, FL, ID conducted two separate surveys. The first was with distributors who were members of the National and Southern Industrial Distributors Assns. (NIDA/SIDA); the second with members of the American Supply and Machinery Manufacturers' Assn. (ASMMA).

The *TIS Questionnaires* (which were circulated during the Conference Booth Program) sought, in part, to measure the three associations' sales performance. Additionally, ID tried to assess the effects of the nation's export surge, and see how it has impacted distributors and their suppliers.

In yet another exercise carried out during the Triple, ID asked distributors to identify the single most important issue they face in the year ahead. A sampling of their views begins on p.51.

In terms of sales, have the past 12 months been more prosperous for the distributor or the manufacturer? Based on results obtained from the *TIS Questionnaires*, both groups had good fiscal years, but with one important difference.

Among distributors, 82% indicated that sales had risen an average of 16% during the past 12 months. For manufacturers, 84% increased their sales an average of 18% (see Table 1).

On the losing side of sales, distributors fared far worse than their suppliers. For example, while 8% of manufacturers lost sales, performance was down only 1.23%. In contrast, for the 7% of NIDA/SIDA distributors reporting falling sales, the intensity of their losses was far greater, at 8.75% (Table 2).

One likely explanation for this difference in performance is exporting. Although fewer than 17% of distributors sell abroad, of those who do, 60% claim their companies have benefited from the nation's recent export surge. Figures also show that exporting distributors outperformed those businesses content with domestic markets.

For the non-exporting distributors with increasing sales, 12-month performance figures climbed 14.57%, while exporting distributors increased sales 22.22% (Table 3). Similarly, the intensity of sales declines was far less for the exporter as opposed to the non-exporter. While 10% of exporting distributors lost only 2% of sales, non-exporting distributors lost 11% of their sales.

Perhaps somewhat dramatic, though no less meaningful, were distributors' and manufacturers' opinions on the issue of exporting (Table 4). Not only are exporting distributors twice as likely to credit overseas markets for increased sales as non-exporters, but manufacturers credit export markets as well for rising sales. In fact, 71% of exporting manufacturers feel their companies have recently benefited from international markets, and only 20% said that they haven't.

While industrial distribution is rarely considered a business suitable to exporting, the *TIS Questionnaires* found businesses engaged in trade not only with Mexico and Canada, but with South Korea, India, Singapore, Sudan, the Middle East, and the Far East. From a slightly different perspective, several Canadian distributors were also found to export abroad and, for them, their market is the best of all—the United States.

Canadian interest in the U.S. is an obvious one; after all it's the world's largest import market. But why isn't the Canadian market as obvious to the American distributor? Xenophobia may be one explanation, and trade restrictions another. But the most likely reason is that, historically, small American businesses are often intimidated by difficulties arising from language, culture, distance, currency and, most threatening of all, fear of the unknown.

## OPPORTUNITY ABROAD

For the 87% of ASMMA members who do export, apparently no corner of the globe is too far to reach. In fact, the only regions of the world not mentioned as markets were the Soviet Union and the Eastern Bloc, although even China appears on ASMMA's customer list.

Among all ASMMA members, 1 in 10 neither exports nor has intentions to start. What this could mean for the savvy distributor is an opportunity to export product abroad. Before doing that, however, the distributor must know which products are needed where, and fortunately this information is now readily available.

As an adjunct to the U.S. Dept. of Commerce's (DOC) "Export Now!" program, a custom-tailored market research report, the "Comparison Shopping Service" is offered for only $500. Additionally, other export services are provided free through DOC's 47 regional offices. Information may be obtained by calling their customer service desk in Washington, DC at (202) 377-2432.

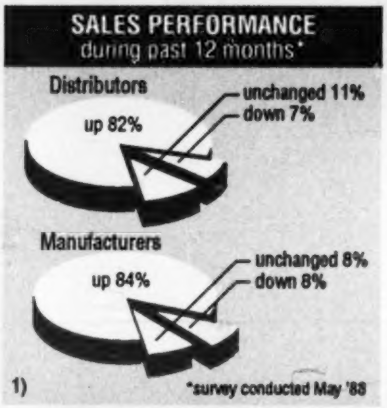
Although the *TIS Questionnaires* lacked the appropriate data to address why so many ASMMA members don't export, manufacturers were asked if the U.S. needs additional tariffs and protectionist trade barriers to remain competitive in world markets. Surprisingly, among exporters 54% said "no," 31% replied "yes" and 15% didn't know.

**FUTURE VISION**

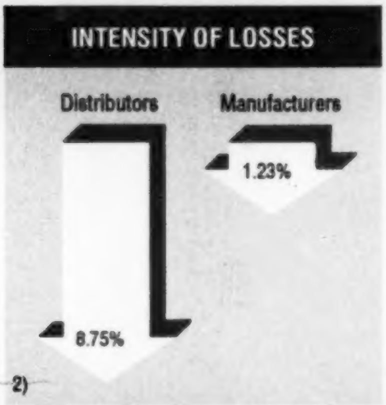
As the stated purpose of the Triple is bringing manufacturer and distributor together, it seemed only appropriate to ask manufacturers whether distributors are used exclusively for industrial products. As Table 5 indicates, 63% do use distributors exclusively for reaching their markets, while 37% do not.

As ASMMA members sell literally thousands of different products to hundreds of different industries, it should not be surprising that so many manufacturers step outside the industrial distribution channel. In addition, a number of ASMMA members sell to original equipment manufacturers where only direct marketing is efficient, and still others sell industrial grade products through retailers and wholesalers where, again, efficiency in reaching the end user is the name of the game.

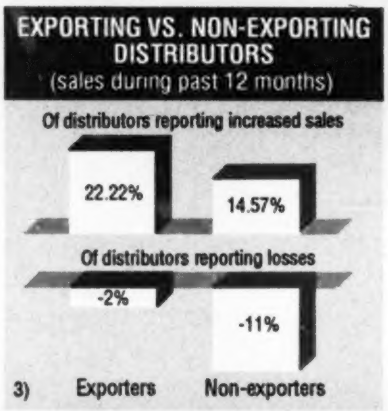
Reflecting manufacturing's sales gains, ASMMA members see an expanded role for distribution in the year ahead. By an overwhelming majority, manufacturers indicated that they would increase their total number of distributors during the next 12 months (Table 6). Conversely, only 5% thought they would decrease their distributor support, and 14% will leave their distributor network unchanged.


SALES PERFORMANCE during past 12 months*

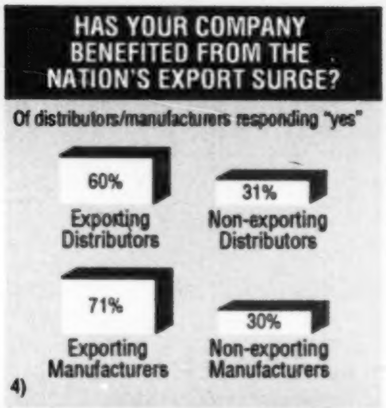
1)
*survey conducted May '88


INTENSITY OF LOSSES

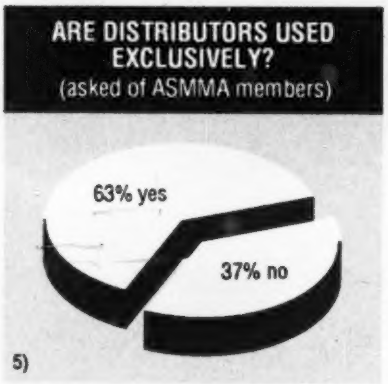
2)


EXPORTING VS. NON-EXPORTING DISTRIBUTORS (sales during past 12 months)

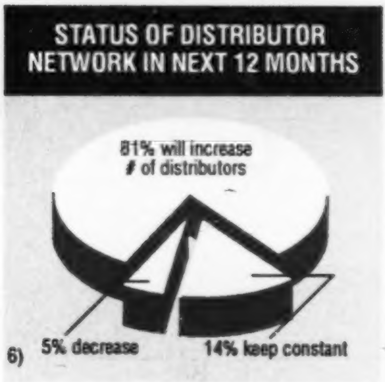
3)


HAS YOUR COMPANY BENEFITED FROM THE NATION'S EXPORT SURGE?

4)


ARE DISTRIBUTORS USED EXCLUSIVELY? (asked of ASMMA members)

5)


STATUS OF DISTRIBUTOR NETWORK IN NEXT 12 MONTHS

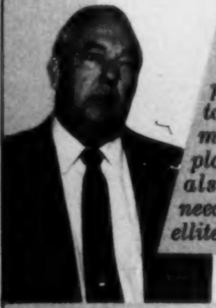
6)

Back on the distributor side, ID asked NIDA and SIDA members whether they thought general line or specialty distributors were more profitable. Although twice as many generalists as specialists responded, by a margin of 2 to 1 distributors think specialty houses are more profitable than general line houses. More precisely, 52% selected specialists, 24% picked generalists and the remaining 24% didn't know.

Although distributors couldn't agree on profitability, one subject that they and manufacturers could agree upon was politics. As reported in last month's *Washington* column, when Triple attendees were asked which political party they felt could best provide the U.S. with economic prosperity, 92% selected Republicans, and "other" out-voted Democrats 5% to 3%. Even if the industry can't agree on little matters like pricing, at least on election day they can all take comfort in knowing that their colleagues are supporting their favorite candidate. ☐

# What is the biggest challenge facing your distributorship in the year ahead?

**The above question was posed by ID editors to distributors attending May's Triple Industrial Supply Convention. Some of the most revealing replies follow:**



*"Our biggest challenge this year will be supplying the new Toyota assembly plant. We have to supply in the manner the new plant needs, and also meet the needs of the satellite plants."*

**Jess C. Sparrow**
**Neill Lavielle Supply**
**Louisville, KY**

*"In part, we'll open a branch. When you open a branch you have hundreds of details that must be taken care of—after you've been in a location since 1945, you know that market."*

**Jack Holloway**
**Holloway Brothers Tools**
**Wilmington, DE**

*"Accounts receivable and the collection of money is getting more difficult. Industry as a group should take some sort of stand."*

**Herbert Denish**
**Great Lakes Tool Supply, Inc.**
**Cleveland, OH**

*"The most significant challenge we face is finding qualified people. It's the same challenge we've had for the past few years. If I could find a qualified person today, he'd be starting for us tomorrow."*

**Dean Gross**
**Transply, Inc.**
**Dillsburg, PA**

*"We're going to put more emphasis on marketing. We've also hired a purchasing pro. Our challenge is to increase profitability even more than the two or three points we've been able to add recently."*

**Dave Merrill**
**National Mill Supply, Inc.**
**Fort Wayne, IN**

*"Over the last five years, in general, relationships between distributors and vendors have deteriorated. We have to work on that. We may have to change our ways to keep up with the times."*

**Bobby Allfrey**
**Noland Co.**
**Decatur, AL**

*"Our challenge is to learn how to use our computer to help our customers, and in this way increase service levels. This, in turn, lays the groundwork for future growth and expansion."*

**Jean Hoppock**
**General Industrial Tool & Supply**
**North Hollywood, CA**

*"We're looking to respond to opportunities with American-made tooling by taking advantage of the more competitive dollar, especially against the yen. We also have to align people with the proper accounts."*

**Dennis Winiarski**
**Delson-Thompson, Inc.**
**Moline, IL**

*"We have to match our business plan to the dominant business trends so we can maintain a reasonable profit level."*

**Dennis W. Strauss**
**Cutting Tools, Inc.**
**Minneapolis, MN**

# BUSINESS REPORT

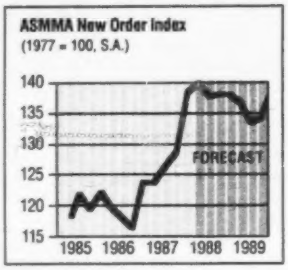
BY KRIS BLEDOWSKI

# Machine tools showing strength

## *Orders indicate strong demand for various capital goods*

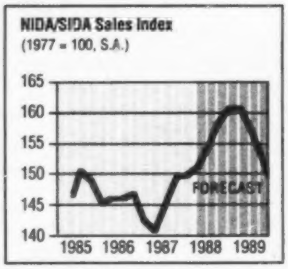
As the economy keeps expanding during the midyear, demand for machine tools rises as well. Orders for machine tools are a good indicator of capital spending since these tools are used primarily for the manufacture of durable equipment.

The latest miniboom in the machine tool industry presages strong upcoming demand for various capital goods. That means American manufacturers see good times ahead and are willing to invest in future productive capacity. Both strong demand from overseas and predictions of a stable dollar add fuel to production managers' fires.



**ASMMA New Order Index**
(1977 = 100, S.A.)

**Data source:** ASMMA
**Forecast source:** Cahners Economics



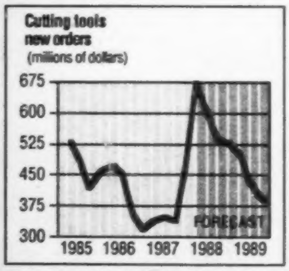
**NIDA/SIDA Sales Index**
(1977 = 100, S.A.)

**Data source:** NIDA
**Forecast source:** Cahners Economics

Among consumers whose purchases increased the most were auto producers that upgraded the design of their engines, transmissions and body parts. More tools were also ordered by aerospace, construction and agricultural machinery manufacturers, those industries whose products are experiencing a strong upsurge of foreign orders. In addition to being shipped directly overseas, new machine tools are also used as intermediate production input into other export goods.

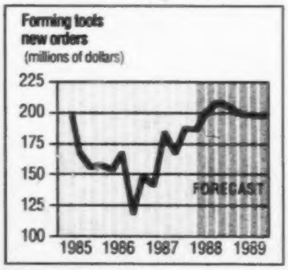
Orders for new machine tools rose to $324.8 million in May, the highest monthly total since March 1981, and were 28.4% higher than in April. Foreign orders have risen nearly 281.7% since May 1987. The industry has been operating at near capacity and it often takes from six months to a year to bring custom tools to market.

Says James A. Gray, president of the National Machine Tools Builders' Assn., "The good news is even better news because the rise is not concentrated in any particular segment of the industry, but reflects an across-the-board improvement in orders for U.S. machine tools. American manufacturing is making a comeback. U.S. manufacturers are upgrading their plants, becoming more efficient and more cost competitive. ☐



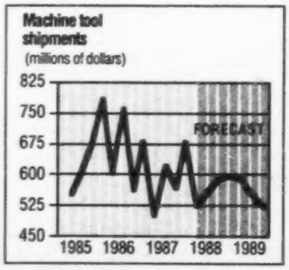
**Cutting tools new orders**
(millions of dollars)

**Data source:** National Machine Tool Builders' Assn.
**Forecast source:** Cahners Economics



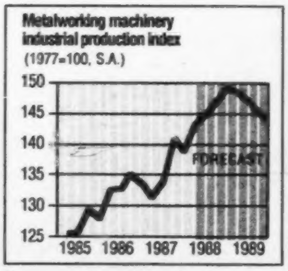
**Forming tools new orders**
(millions of dollars)

**Data source:** NMTBA
**Forecast source:** Cahners Economics



**Machine tool shipments**
(millions of dollars)

**Data source:** NMTBA
**Forecast source:** Cahners Economics



**Metalworking machinery industrial production index**
(1977=100, S.A.)

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

| **SALES BY REGIONS** (% change) | SALES (%) April '88 vs. April '87 | | | RECEIVABLES (# of days) Apr. '88 vs. Apr. '87 | | | | | | INVENTORIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Gen. | Spec. | Comb. | Increase Levels | Remain The Same | Decrease Levels |
| **NEW ENGLAND** CT, RI, MA, NH, VT, ME | −3 | 4 | 7 | 44 | 41 | 42 | 40 | 41 | 42 | 29 | 29 | 43 |
| **MID-ADLANTIC** NY, NJ, PA | 7 | 24 | 6 | 47 | 64 | 38 | 50 | 57 | 41 | 36 | 55 | 9 |
| **SOUTHEAST** DE, DC, MD, VA, WV, GA, NC, SC, FL | 6 | 23 | 6 | 38 | 44 | 35 | 49 | 49 | 38 | 41 | 50 | 9 |
| **NORTH CENTRAL** OH, IL, IN, MI, WI | −58 | −23 | 38 | 37 | 46 | 41 | 38 | 49 | 43 | 47 | 35 | 18 |
| **SOUTH CENTRAL** AL, MS, KY, TN | −11 | 26 | 3 | 37 | 46 | 43 | 36 | 49 | 43 | 47 | 35 | 18 |
| **MIDWEST** MN, ND, DS, IA, NE, KS, MO | −27 | 1 | 12 | 26 | 21 | 37 | 28 | 20 | 40 | 47 | 42 | 11 |
| **SOUTHWEST** AR, LA, OK, TX | 7 | 2 | 0 | 44 | 40 | 17 | 43 | 38 | 20 | 38 | 58 | 4 |
| **MOUNTAIN** NM, AZ, CO, UT, NV, WY, MT, ID | 89 | 7 | −2 | 50 | 51 | 34 | 56 | 46 | 36 | 39 | 44 | 17 |
| **PACIFIC** CA, OR, WA | −15 | 4 | 1 | 35 | 50 | 38 | 36 | 50 | 44 | 42 | 42 | 17 |
| **U.S. TOTALS** | 4 | −6 | 8 | 40 | 47 | 37 | 40 | 47 | 39 | 42 | 44 | 14 |

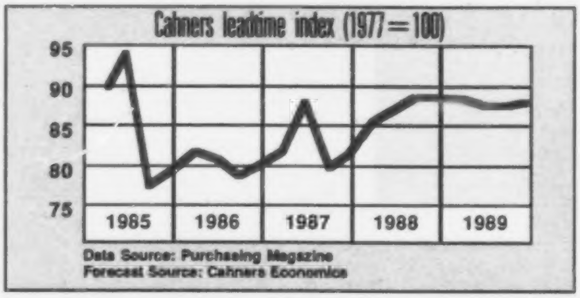
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

## Supply conditions to stay tight

*Inflation, however, is likely to rise only marginally*

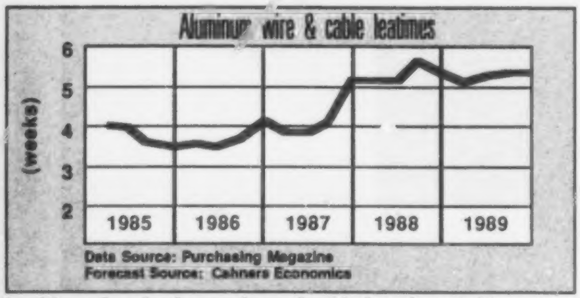
The economy keeps expanding at a healthy clip. It is now believed that GNP will grow between 3.0 and 3.5% this year, about half a percentage point higher than previously predicted. Domestic demand will stay strong while foreign orders are generally expected to be higher. A stable dollar and expanding foreign economies should help exports further. Says Beryl Sprinkel, chief economic adviser to the White House: "Not only is the economy continuing hale and hearty, but we are also getting the trade adjustment we need." The nation's productive capacity is also expanding, with firms adding machinery and other equipment to fill a larger volume of orders. In primary industries like paper, aluminum and steel, investment in fixed capital equipment is up by as much as 20% over last year.



Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

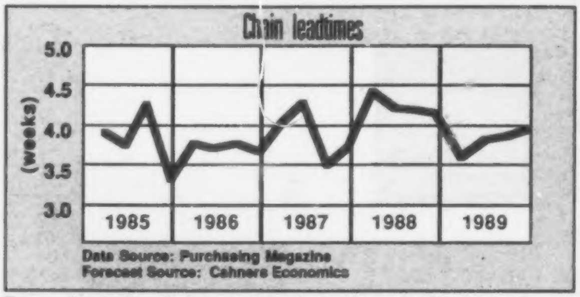
As a result of this expansion, leadtimes have lengthened further. The Cahners leadtime index rose 4.6% in the first quarter and another 1.8% in the second quarter of 1988. Leadtimes should reach record levels in the fourth quarter and ease off marginally throughout 1989. Aluminum wire and cable leadtimes have jumped to over 5 weeks so far this year, and overall are expected to be about 20% longer than last year's. Likewise, forgings and steel wire leadtimes will be longer due to higher volume of orders and high capacity utilization.

In spite of tighter supply conditions, inflation is likely to rise only marginally this year. The drought is expected to hike prices of foodstuffs, but because these represent only a small fraction of GNP, the overall inflation rate will not be affected. Expect prices to climb by less than 5% in 1988. More significant price increases will occur in industries which are running out of capacity and cannot fill orders, such as paper, primary metals, machine tools, and aerospace. ☐



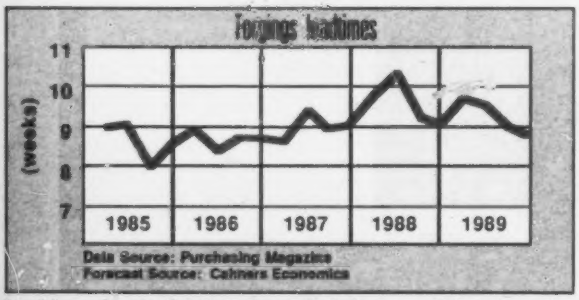
Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

**Leadtimes for aluminum wire and cable lengthened this year and will stay above 5 weeks for the remainder of 1988.**



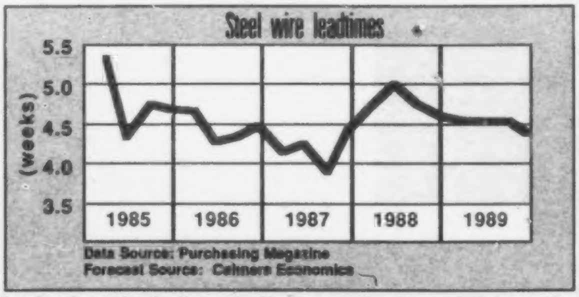
Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

**Expect leads for chains to stretch to about 8.7% this year compared to last year.**



Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

**Leadtimes for the fabricated metals industry, which is booming, are expected to exceed 9 weeks for the rest of '88.**



Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

**Leads of steel wire have declined steadily since 1985 but will lengthen as the industry is operating at high capacity.**

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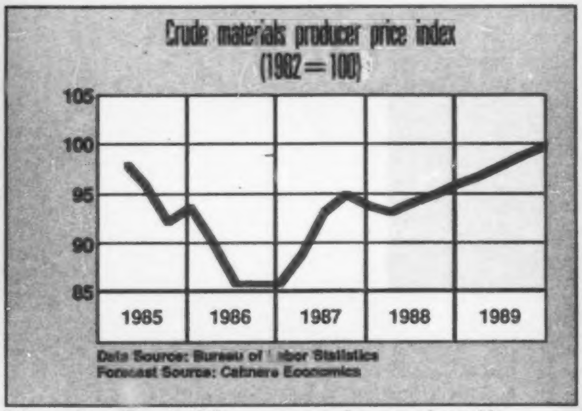
# SUPPLY OUTLOOK

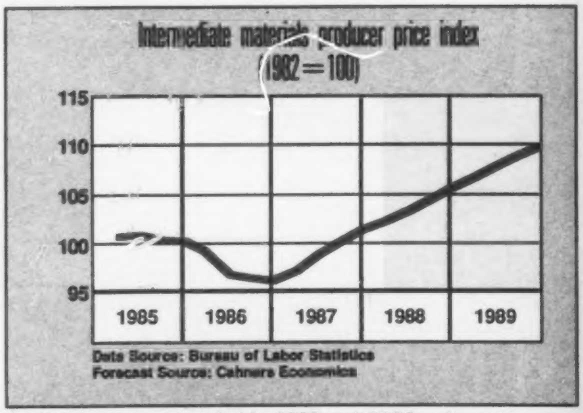
## Moderate Inflation Expected

The producer price index for intermediate materials, supplies and components advanced 0.6% seasonally adjusted from April to May, slightly less than April's but the same as March's increase. While most intermediate categories showed slower rates of increase compared to the month before, the energy component increased markedly for the second consecutive month following several months of weakness. Prices for industrial chemicals, paperboard and woodpulp continued to move up as did prices for plastic resins. Moderation was evident in the construction materials market, which rose only 0.2%.



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Prices of crude materials are expected to remain stable throughout 1988.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**As the economy expanded in 1987 and 1988, prices of intermediate materials crept up at an increasing rate.**

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SEPTEMBER 1988
A CAHNERS PUBLICATION

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

**SPECIAL:**

**Goodyear's Mercer on Staying Competitive**

## Distribution's High-Tech Role

Robert O. Dietz
Miller & Dietz Co.

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 9 SEPTEMBER 1988 A CAHNERS PUBLICATION

Robert O. Dietz of Miller & Dietz tells what it takes to succeed in the burgeoning high-tech market.

Cover photography by Eugene Mopsik

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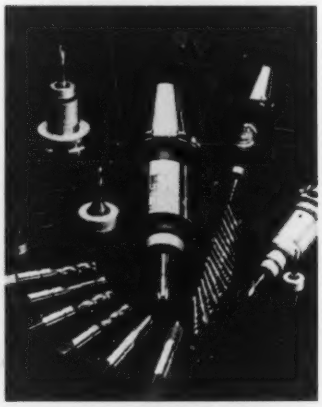

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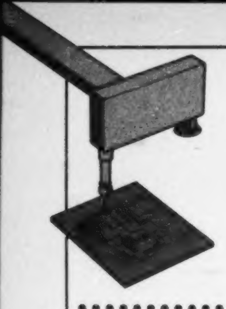
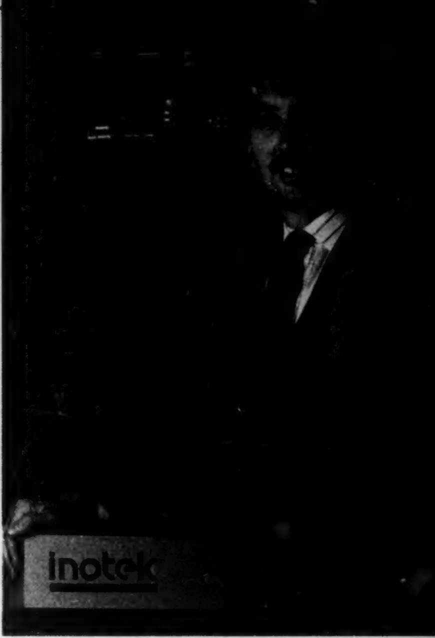


# The High-Tech Market

**By John G.F. Bonnanzio, Associate Editor**



**The promise of payback, says high-tech distributor Bob Reese, is what sells a quality control system.**

Productivity, quality, flexibility. Together, these words form the cornerstone of a "new industrial revolution" which is rapidly changing the workplace of today into the fully automated factory floor of tomorrow.

Orchestrating this revolution is a new breed of high-tech distributor who uses "solution selling" and microchip technology in a redefined era of automation. Responsible for making the Information Age a reality, tiny crystalline circuitry is now invading Smokestack America where, ironically, the presence of Silicon Valley was once feared most.

Today, however, manufacturing is finding itself the greatest beneficiary of this still developing technology and, in fact, its very fate may rest upon the delicate shoulders of the chip. In a true sense, these information systems perform as the brains and nervous systems of both manufacturing systems and the products themselves.

Ultimately, engineers dream of the day when a customer can specify the size, shape, color, and quantity of a product directly to the plant, while a fully automated factory designs and produces the product to the customer's exact specifications.

While that factory exists only in the minds of visionaries, computer integrated manufacturing (CIM) combined with the power of computer aided design and manufacturing (CAD/CAM) is bringing some industries remarkably close to this latest phase of business automation. Until that phase is finally realized, however, high-tech distributors are focusing their attention on digital process controls, the latest technology at hand for controlling and automating manufacturing processes.

The reason for automation is not to create a people-less workplace, but rather to control processes that demand monitoring and refinements for maximum productivity.

Digital process control systems provide manufacturers with the advantages required to maintain a competitive edge. To the high-tech distributor, such systems represent a means to save customers money and harvest considerable margins in the process.

Despite what microchips can offer business, large, complicated and expensive process control systems could not exist without a market, and suffice it to say, such a market could not be any more promising for high-tech distributors than it is today.

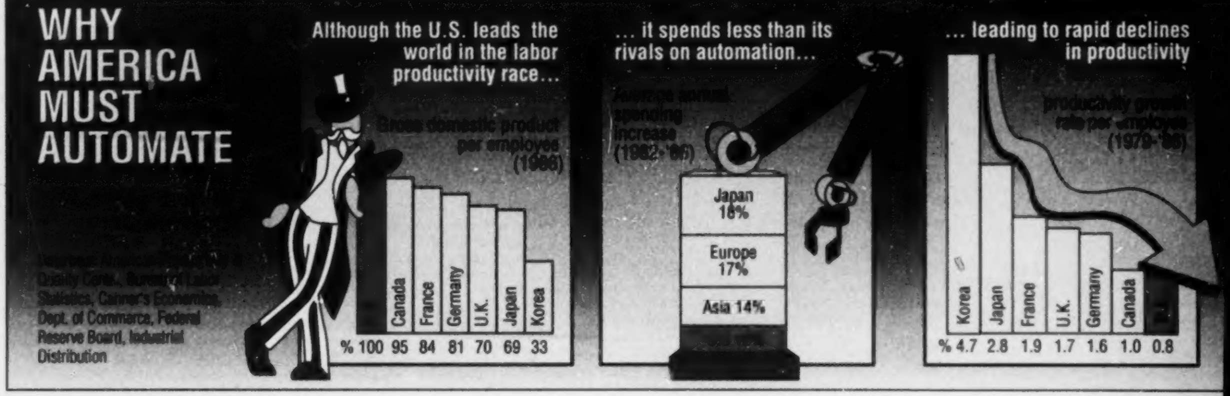
### THE U.S. AUTOMATES

When distributed digital controls first arrived in the late 1970s, the cost was prohibitive to all but the largest operations. What was available were much less flexible (and less expensive) dedicated controls.

As manufacturers gained product know-how and the cost of technology fell, slimmed down, lower cost entry systems came onto the market. Additionally, these newer models were designed to be upwardly compatible with larger systems so that obsolescence, while still a problem, became less of one.

Fortunately, the turnaround for digital controllers began in 1983. During that time, capital spending on new plant and equipment began to climb. In the past 5 years, manufacturing increased its annual spending from $116 billion to $163 billion. The reason for this growth was an increase in capacity utilization, which has risen from 70% in 1982 to 84% today, resulting in greater leadtimes and occasional spikes in prices.

According to Dr. Terry K. McMahon, an industrial automation consultant with McMahon Technolo-



## Productivity: the market catalyst

For the high-tech distributor, certain measures of America's productivity may be bad news for the country, but good news for digital process control merchants. As shown below, the U.S. is still the world's leader in labor productivity. And although other countries lag behind, according to the American Productivity & Quality Center in Houston, TX, that lead may be short-lived while countries like South Korea now improve productivity at a rate nearly six times faster than the U.S.

Says the Center's President Carl G. Thor, "The urgency for improved productivity relates to international competitiveness. We've got ourselves into a race which overall we're still leading, but our competitors are quickly gaining on us."

How long it would take for the U.S. to finally lose that race is anybody's guess. But should America eventually fall behind Japan, complacency in the international arena could even find the so-called Pacific Rim Tigers (Singapore, Hong Kong, Taiwan, and South Korea) coasting comfortably by their Asian competitors.

Not all measures of American competitiveness look bad, however. During the past 4 years, in fact, the U.S. has managed to regain some ground lost during the 1970s and early 1980s. Between 1982 and 1986, the U.S. improved its productivity performance at the robust rate of 2% per year. The reason for this reversal is improvement to both labor and capital productivity.

More directly affecting the demand for digital process control equipment has been manufacturing's healthy performance. Spurred by a dollar that has declined 37% over the past 2½ years, the U.S. is selling abroad more of everything it produces. And while the U.S. continues to import nearly twice as much as it exports, capacity utilization is returning to ten-year highs.

In turn, this performance has triggered a need for manufacturing to increase new plant and equipment expenditures by nearly 11%. And not with outdated, unproductive machinery, but by installing highly automated capacity capable of not only increasing productivity, but of achieving unheard of quality levels using process controllers and flexible automation technologies.

"We still have to be quality-improvement minded," says Thor, "or the U.S. risks being squeezed out of manufacturing and into the service sector." Should that happen, Americans may have to settle for a slightly lower standard of living. Cautions Thor, "The Englandization of America can be a reality if we don't get with it."

gy Assoc. in New York City, new plant construction has been the primary driver of the process control industry. While many companies installed retrofits of distributed digital controls into existing plants, says McMahon, in effect, the newer technology is edging out older mechanical, electromechanical and analog controllers.

Today, a control facility is a typical modernization expense, but is by no means inexpensive, nor is its technology universally understood at the plant level. What sells a system in 1988, explains high-tech distributor Bob Reese, is the promise of payback.

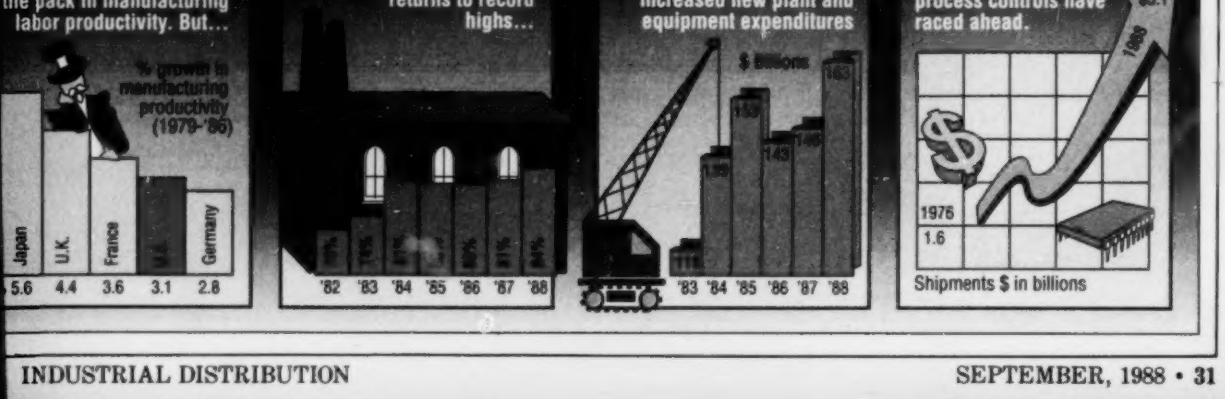
Recalling the installation of a quality control system for a food processor, Reese's INOTEK Corp. worried that its spectacular cost reduction estimates would not be taken seriously. To sidestep this possibility, the Dallas distributor intentionally "modified" payback calculations outward to avoid having the client feel it was fast-talked.

But far from being bombastic, Reese reports that according to the customer's estimates, the $80,000 system was 80% paid for during the first 2 months of operation, well ahead of the 2 years promised. "We tell our customers and prospects to 'come to us for solutions,'" says Reese, "and more and more the plant engineer is looking to the distributor to solve his problems."

### A BILLION DOLLAR MARKET

Process controls, which are oftentimes called plant management systems, consist of computer hardware (PCs, minis, micros, mainframes, and hierarchical-type machines), system tools (digital sensors, transducers and actuators), and application software. According to the Automation Research Corp. of Medfield, MA, shipments of these systems will grow at a rate just above 11% through 1992. In 1987, sales surpassed the billion dollar mark for the first time, and by 1992, says the company's report, that figure will climb to nearly $1.8 billion.

While shipments are an important industry barometer, a more meaningful measure is market consumption. A recent Frost & Sullivan study conducted by Dr. McMahon predicts that, in contrast to the broader process control business, the U.S. market for digital process controls will experience strong growth through 1991.



# THE MARKET

In fact, only 6 years ago, digital controls comprised 7.3% of the total market. But today, as the new technology eliminates the need for operator interface, 13.3% of sales finds its way to digital equipment manufacturers. Within that market, McMahon expects to see sales for programmable logic controllers increase 9% through 1991, hierarchical computers 6%, distributed systems 7%, and dedicated single-loop systems 5%.

However, because technology has depressed the overall cost of distributed systems, sales of dedicated multi-loop systems are expected to decline about 2%.

"Overall, I see the digital market growing 6% yearly," says McMahon, targeting the 1987 market at $625 million, reaching nearly $800 million by the early 1990s (see table). "Increasing U.S. concern with manufacturing competitiveness is a positive development for digital processors," he says, "as it provides the framework that can bring technological advances to manufacturing efficiency in the process industries."

### IDENTIFYING THE MARKET

Purchasing the lion's share of the digital market are process industries experiencing high capacity utilization rates. They include chemical processors operating at 86% of capacity, petroleum refiners (85%), rubber and plastics (88%), and paper/pulp companies (95%). Add to this equation high capital spending on new plant and equipment, and the chemical process industries become the hottest market for selling digital automation technology.

"There's no question about it," says Dr. McMahon. "Chemical process businesses are the people who have the need and the application for these types of equipment. And capital spending is the primary market driver. It's the most important factor affecting digital control shipments."

### THE DISTRIBUTOR'S ROLE

While the economy at large may drive the market, some credit must be given to those players who actually sell the systems. Although high-tech distribution "is still in the toddler stage," says INOTEK's Bob Reese, he finds that there has been a shift away from the factory rep system to the use of distribution.

"The high-tech distributor provides the value-added capabilities," says Reese, noting that while most personal computers are being sold through the manufacturer, "there's a heavy channel of programmable logic controllers going through distribution."

> New plant construction has been the primary driver of the process control industry.
> —McMahon

At Miller & Dietz Co. in Fraser, PA, company President Robert O. Dietz shares the same view of the high-tech distributor's emerging role. "We went out into the market looking for products that would help a business solve efficiency problems," recalls Dietz. "A technical product is something requiring expertise in order to apply it. The need is supplied by the manufacturer, and the distributor serves that need."

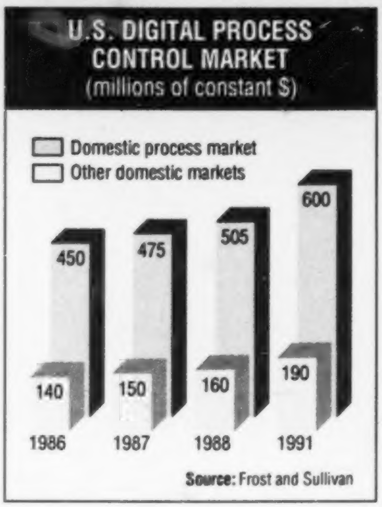
The common denominator for any high-tech distributor is solution selling. For Miller & Dietz, selling efficiency and productivity was invariably the solution to many of its customers' problems. As it happens, solutions in the high-tech business are not individual control devices, but more commonly large, programmable systems.

"If you can sell the concept of a programmable controller," says Dietz, "then you can sell all sorts of commodity items, such as sensors." But selling a system is not as easy as chatting with a purchasing agent, leaving a brochure and following with a phone call one week later. In the world of high tech, the distributor's supplier is a partner in every respect. In fact, many distributors are dependent on their suppliers not only for technology updates but for their actual sales leads as well.

While in some cases the high-tech distributor can make ends meet by selling replacement parts at the maintenance level, or repairing items at the plant manager level, the best margins are obtainable in such value-added services as engineering turnkey systems. Selling to the plant engineer or at the corporate officer level is ultimately how the real money can be made.

When a distributor finds itself in the position of helping a company reduce the need for additional labor or, better yet, installing a system that will allow a customer to avoid building additional capacity when upgrading an existing plant will do, that's high-tech distribution at its very best. ☐

**U.S. DIGITAL PROCESS CONTROL MARKET**
(millions of constant $)



**Source:** Frost and Sullivan

## The hottest process control markets

Dr. Terry McMahon's recent report, *The Digital Process Control Market in the U.S.*, details the most likely industries to purchase automation controls. Prospects in particular need of automating manufacturing are those who process vast raw materials, have stringent quality control standards, and are large energy consumers.

Couple those characteristics with high capacity utilization rates and large increases in new plant and equipment spending, and your prospect list would grow to include chemical processors, petroleum refiners, pulp and paper processors, rubber and plastic fabricators, primary metals milling, food processors, mining, and utilities.

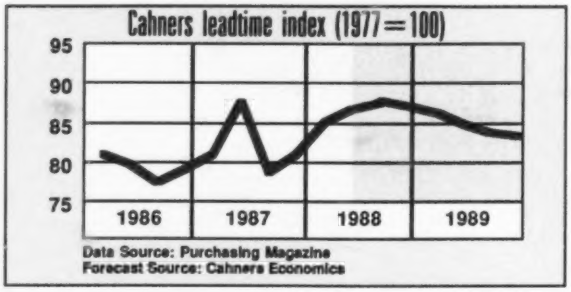
To obtain a copy of Dr. McMahon's report, contact: Frost & Sullivan Inc., 106 Fulton St., New York, NY 10038, or call (212) 233-1080. The price of report A1782 is $2,150.

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

## Fear of rising inflation evident

*Full employment of resources may push prices up*


Cahners leadtime index (1977=100)

Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

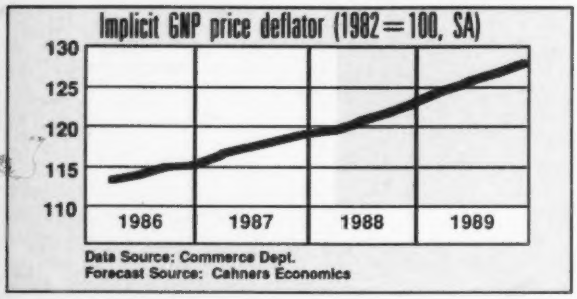
Now that the economy has been growing robustly and has reached high levels of capacity utilization, there are signs that inflation may creep up. Interest rates have been rising steadily for the past several weeks and the Fed is not easing on its tight monetary targets.

Standard economics teaches that in order to accommodate growing output, the money supply should grow at a corresponding rate to provide liquidity needed to handle added transaction volumes. Excessive additions to the money stock produce the monetary inflation common in Latin America. The U.S. has avoided this kind of inflation because it does not print money as a means to finance public debt.

As the economy approaches full employment of resources, however, so-called cost-push inflation can flare up. Shortages of raw materials, capital goods and labor push prices up in response to mismatched supply and demand. This type of inflation in the real sector of the economy is prevalent in Europe, Japan and the U.S.

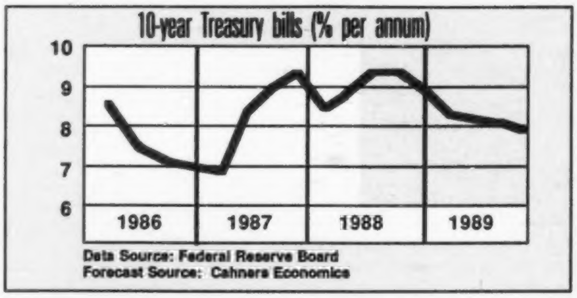
To control cost-push inflation, the Fed often prefers interest rate policy to monetary policy. Higher interest rates choke off capital and consumer spending through higher cost of borrowing. For instance, the average rate on 10-year Treasury bills went up 5.9% from first to second quarter, and it is expected to climb an additional 4.3% in the third quarter. Likewise, the implicit price deflator is expected to rise at an annualized rate of 4 to 5% through the remainder of this year after gaining only 2.97% last year.

Meanwhile, capacity utilization in June crept up to 83.1% for total industry and was unchanged at 83.2% for manufacturing. Some sectors, particularly those already operating at high capacity such as plastics and paper, are begining to cool off. This is good news for inflation. ☐


Implicit GNP price deflator (1982=100, SA)

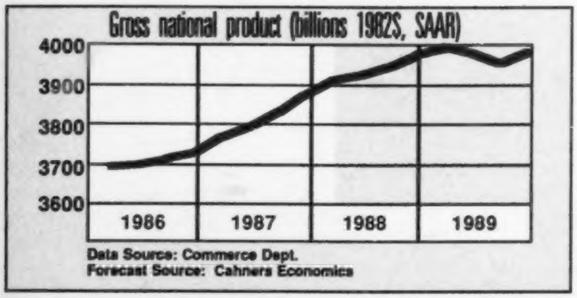
Data Source: Commerce Dept.
Forecast Source: Cahners Economics

**Inflation measured by the implicit GNP price deflator should flare up through 1989.**


10-year Treasury bills (% per annum)

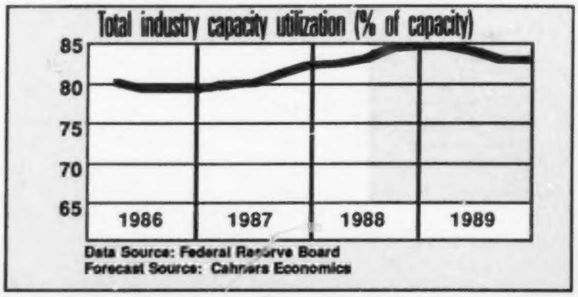
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Expect the rates on 10-year Treasury bills to rise this year then drop back off in '89.**


Gross national product (billions 1982$, SAAR)

Data Source: Commerce Dept.
Forecast Source: Cahners Economics

**Strong economic growth will continue through the end of the year.**


Total industry capacity utilization (% of capacity)

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Most industries are operating under tight capacity constraints.**

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OCTOBER 1988
A CAHNERS PUBLICATION

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

**SPECIAL:**

## Finding "hot" pt markets

## Meet the new I.D.A.

Gary Buffington
Executive Vice President
I.D.A.
Atlanta, GA

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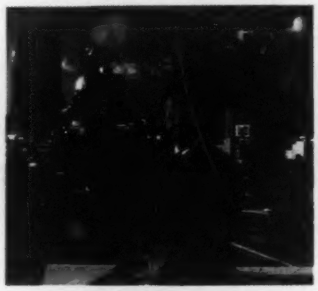

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Cover photography by Chipp Jamison

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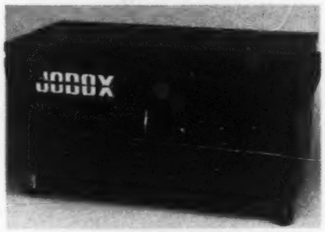

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AN ID EXCLUSIVE

# Survey reveals hot pt markets

*From agriculture to textiles, respondents to our exclusive survey power American industry with products as varied as ac drives and bearings, programmable controllers and sprockets.*

**By George M. Fodor, Senior Editor**

Engine is a word we typically use to identify an assembly of cylinders, seals, rings, and other components encased in a block and mounted in line with gears and linkages. We ought to broaden our imagination. For "engine" also describes the power transmission (pt) distributor without whose products and services there would be little, if any, orange juice for breakfast, morning papers that report last night's news, or highways congested by our individual commutes to work.

Indeed, ID's exclusive survey of pt distributors shows the group's influence to be everywhere. As Table I indicates, users of pt products process the food we eat, assemble the cars we drive and mine the aggregate we drive on. Further, pt distribution has a hand in ventilating the air we breath, operating the elevators we ride and treating the waste we produce.

Getting all those jobs done requires pt distributors to stock thousands of line items from bearings, belts and chain to motors and, with increasing frequency, electrical and electronic apparatus. As Table II reveals, 22% of responding pt distributors have added sensor, control and relay lines within the last year.

More importantly, this expansion reflects true growth into new areas and continued specialization, as 71% of our respondents report having dropped no existing product lines.

## Top five pt markets

While pt distributors serve all industries, ID's survey showed these five areas to be pt's hottest markets in 1988:

- **Food processing (55%)**
- **Automotive assembly (22%)**
- **Paper processing (19%)**
- **Mining/quarry operations (19%)**
- **Printing processes (14%)**

I

## What's selling

High-tech controls, our survey shows, are gaining shelf space alongside traditional pt products:

**TOP SELLERS**

- **Bearings**
- **Drives**
- **Belts and chain**
- **Motors**
- **Gears**

**LINES ADDED**

**(22% of all respondents)**

- **Sensors**
- **Electronic controls**
- **Relays**

II

## Top issues

When asked to name the most important issue facing them as distributors, respondents put product and people at the top of the list:

- **Delivery/product availability**
- **Finding qualified people**
- **Sustaining margins**
- **Competition from national chains**
- **Pricing**
- **Cash flow.**

III

Categories that have been dropped are restricted to non-pt commodities such as "light bulbs," "fire equipment" and "certain aerosols."

Underneath these raw numbers lies a commitment to creativity. By learning about how programmable controllers work and are applied, pt distributors show a willingness to find new, faster, easier ways of accomplishing motion control tasks. This is particularly true for the 12% of our sample who named "automation assembly" as one of their top three markets served.

### MANAGEMENT ISSUES

Despite recent controversy over dumping of product by foreign pt suppliers, only 1.6% of survey respondents identified foreign competition as a dominant issue affecting the way they run their distributorships. Containing costs, implementing systems contracts and smoothing vendor relations are all issues that, this year, are more pressing than foreign competition.

Similarly, strong local economies and restrained interest rates are each key concerns of about 5% of our survey group. Economic well-being of individual service areas is constantly a high priority among independent distributors and, as Table III shows, competition between national chains and regional independents is a top concern among survey respondents.

Inter-level competition, in fact, easily outpolled both price and cash flow as a core issue. Collectively, these money matters—pricing and receivables—were tapped by 17.6% of the survey as the number one issue facing distributors. On the other hand, fully 25.6% of pt distributors named availability of either people or product as their most troublesome concern.

Distribution's efforts at attracting qualified personnel have been well-documented (see ID: July '88, p. 49 and pp. 12 and 38 of this issue). Pt distributors have funded an Educational Foundation for several years, and the newly formed Industrial Distribution Assn. (I.D.A.) has announced plans to create a similar foundation that will not only provide scholarships to students, but will also create video material promoting the benefits of distribution as a career.

### FINDING PRODUCT

Perceptions of the availability and delivery of product, however, reflect the fact that manufacturing is currently running at 84% of capacity, according to the government, a level that is several percentage points above the levels seen in recent years. On the other hand, an orneriness that seems endemic to the distributor-supplier relationship could also influence perceptions of delivery performance.

## What pt distributors are saying

**The following are selected verbatim comments that power transmission distributors provided in response to the question "This year, what is the single, most important issue you face as a distributor?"**

- **Fighting national contracts with conglomerates.**
- **Quantity of competition.**
- **Pricing and delivery from manufacturers.**
- **Maintaining a superior customer service level; 100% on-time shipment with zero errors.**
- **Broadening our line to offer a wide selection of products as a single source.**
- **Lack of experienced salespeople.**
- **Competition from the manufacturer.**
- **Erosion of business to large chains offering just-in-time/system selling.**
- **Product availability.**
- **The rapidly deteriorating profit margins brought on by the large chainstore operations engaged in a price war; we are a single-store, independent operation doing battle with the "K-Marts" of the bearing and power transmission industry.**
- **Inventory management control.**
- **Customers tending toward single-source contracts.**
- **Taxes.**
- **Keeping up with changing technology.**
- **Recruiting and training of inside customer service personnel.**
- **People!!**

## Automation assembly is a top market for 12% of survey participants.

For example, Harold Stutts, operations manager at Power Transmission Specialties (Carson, CA), says his high-tech suppliers "have a better handle on production and delivery than the 'iron' people do. Gearbox suppliers don't believe anything should be available in four to six weeks," Stutts says. Further, he notes that delivery problems "have gotten more severe within the last few months."

Conversely, Thomas Volk, president of Ohio Belting and Transmission Co. (Toledo, OH), reports having delivery problems with only "a few suppliers." Availability and delivery delays "are not a general trend," Volk says, although "some manufacturers are cutting back on inventory." Volk connects the cutbacks he does see with the fact that "so many major players have changed ownership."

William Hayes, president of NTN Bearing Corp. of America (Des Plaines, IL), amplifies Volk's allusion to new owners by noting that "a series of mergers and acquisitions has effectively retired bearing capacity. Until recently," Hayes continues, "there were a number of 30-year-old machines that could be tapped for bearing production during peak times. Now that aged capacity is gone."

NTN is "in the process of expanding capacity," Hayes says, but, as is the case with any major capital investment project, "it will be 12 to 24 months before we see significant production."

Specific leadtime extensions have surfaced also in certain component product categories. For example, "pressures on delivery" have been noticed by John Martin, vice president of sales at Martin Sprocket & Gear, Inc. (Arlington, TX). "We're in good shape on pure stock items," Martin says, where the firm is maintaining 90 to 93% service levels. "However, on made-to-order items, we're running about 10 to 15% longer than we were last year."

Similarly, John Yedinak, manager of distributor marketing for electrical products at Reliance Electric (Cleveland, OH), says that "demand for product is significantly higher this year compared with a year ago, and our performance from stock continues to be challenged." To relieve these pressures, Yedinak explains that Reliance has, in addition to putting on more people and shifts, refined information gathering with respect to production cycles. This refinement helps the firm more reliably project delivery dates, Yedinak concludes.

Representatives from two suppliers, Zurn Industries, Inc. (La Grange, IL) and Baldor Electric Co. (Ft. Smith, AR), report that their firms are having no difficulties meeting delivery timetables. Thomas Werking, marketing manager for the Marland Clutch Div. of Zurn, credits specialization with his company's ability to turn around an order in three days.

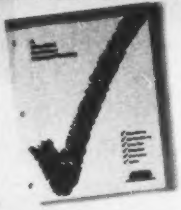
"We make one-way clutches, and we're dedicated to what we make," Werking says. "We benefit from having extremely flexible shop conditions and from stocking more raw materials than many of our competitors do. Distributors pay a little more for our product," according to Werking, but Marland Clutch delivers in 1/20th the time that many competitors take.

> 'Demand for product is significantly higher compared with a year ago.'—Yedinak

At Baldor, corporate communications manager Charles Hubbard points to the firm's network of 27 distribution locations throughout the U.S. and Canada as the chief reason Baldor fulfills its pledge of "getting the right product to the customer within his time frame. We're providing immediate delivery of standard stock motors," Hubbard says, "and modified versions, such as a longer than normal shaft or special environmental protection, are still delivered within three days."

While custom-designed motors continue to carry traditional leadtimes at Baldor, Hubbard says that a "flexible flow manufacturing system that is intended to shorten leadtimes and increase manufacturing efficiency will be implemented by the year's end."

The consensus among manufacturers suggests that supply pressures will not abate soon. Martin sees "90 to 120 days" of continued high demand, while Yedinak anticipates a strong market for the rest of this year, at minimum. A more cautiously optimistic Hayes concedes that "pressures could be present throughout all of 1989, although most people are looking for good business at least through the first half" of the new year. ☐



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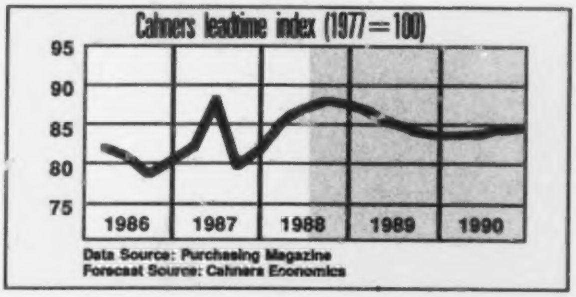
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

## Inflation expected to rise

### *Higher prices expected for goods and services*



Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

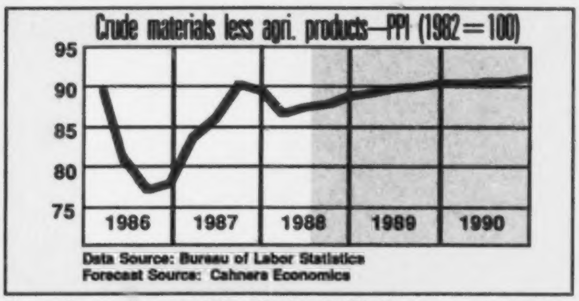
The economy has been expanding for the past few years without high inflation. This was made possible by employment of idle capital and by calling in or retraining unemployed workers. But the latest signs indicate that resources are now in short supply, while orders keep coming in and the backlog grows. This means that in the future some resources will have to be rationed by means of higher prices. More expensive inputs will translate into higher prices for goods and services at both the producer and consumer levels.

That is where the government steps in to counterbalance inflationary pressures. Deflationary fiscal policy—cutting spending—is not feasible because it would cause reces[illegible] That leaves monetar[illegible]licy controlled by the [illegible]. Higher interest rates will choke off consumer and investment spending, cooling off the demand side. The price of this policy, however, will be higher capital costs for firms expanding to fill the order backlog.

Prices for crude materials have risen 1% in the second quarter but were up only 1.6% from a year ago. However, prices for intermediate goods shot up at an annual rate of 4.4% in the second quarter. Expect overall inflation for this category to exceed 4.0% this year and next.

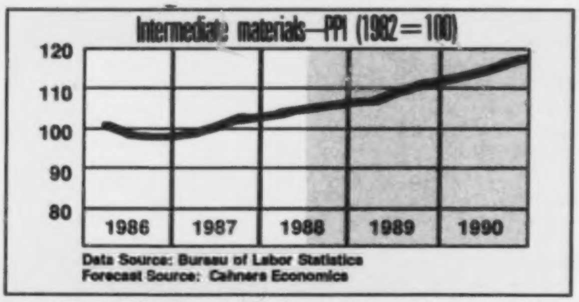
As a result of price increases, consumer inflation as measured by the consumer price index is also expected to increase. Our forecast has recently been augmented from 4.0% to 4.5% to account for the summer drought. Expect consumer inflation to average 5.0% in 1989.

Cahners' leadtime index is forecast to rise 5.1% this year, but leads should moderate in 1989 as a result of added capacity. Eager to fill the backlog of orders, companies are investing in new technologies and adding productive resources. With new capacity, prices and leadtimes should moderate. ☐



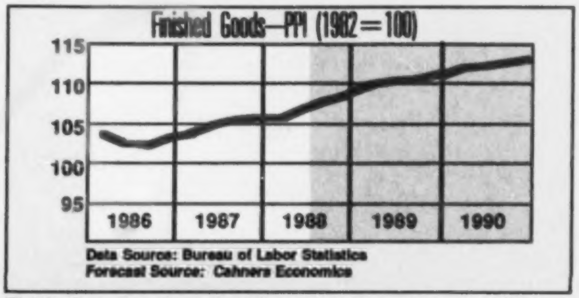
Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Prices for crude materials will rise 0.3% this year and should stay moderate for the remainder of this decade.**



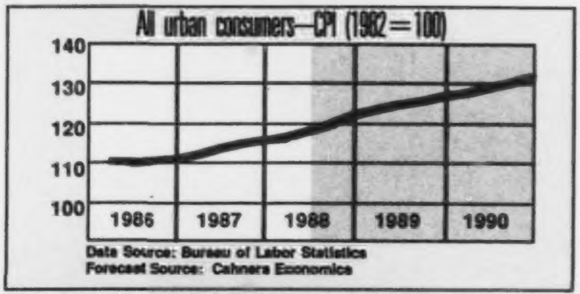
Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Expect an acceleration of inflation for intermediate materials. Prices will rise 4.0% this year and next before jumping 5.3% in 1990.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Finished goods prices should stay moderate through 1990 and grow 2 to 3% per year. The reason is expected excess capacity in 1989 and 1990.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**We forecast consumer inflation to exceed 4.5% this year, top 5.0% next year and settle down to 3.5% in 1990. These figures incorporate drought adjustments.**